

DECEMBER 1978

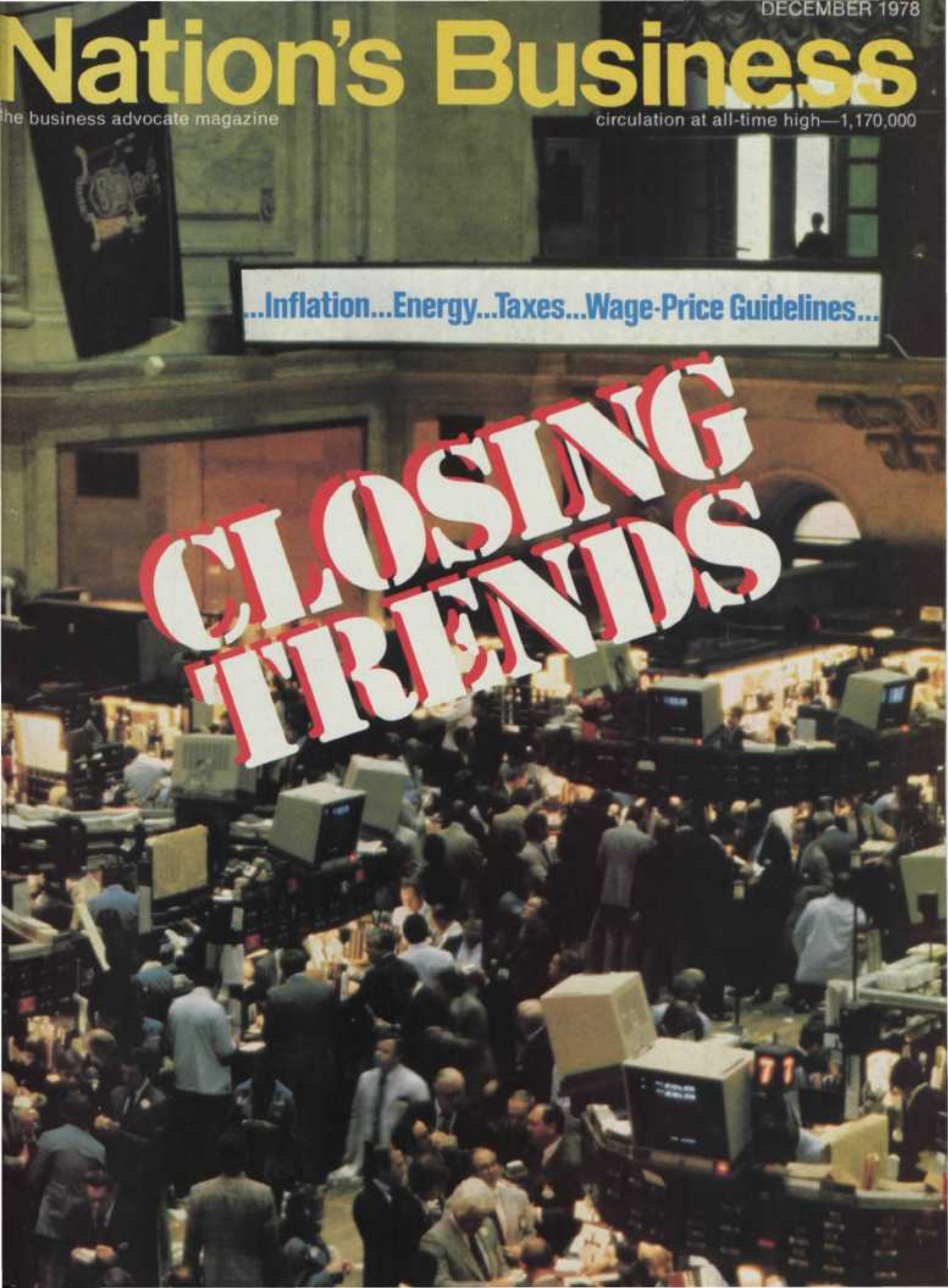
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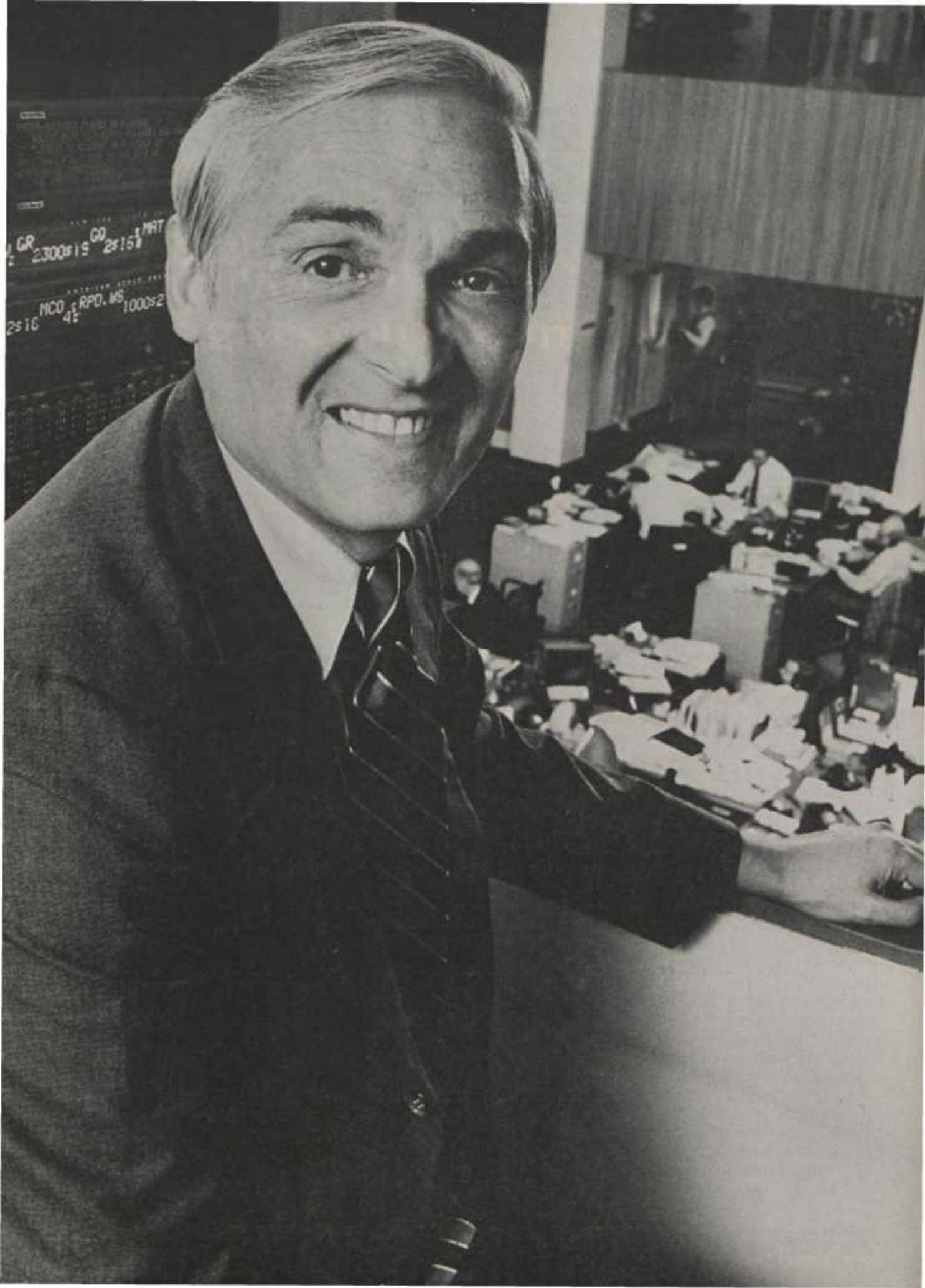
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*Frank E. Dominach, Jr., Director of Operations,
Bache Halsey Stuart Shields Incorporated*

"In a fast-moving market, where everything is happening quickly, voice contact is a necessity," says Frank E. Dominach, Jr., executive VP at Bache.

"We wanted our account executives to hear each other at 26 different commodities locations," Mr. Dominach continues. "Bell came up with the answer. It puts all the locations on a single telephone line connected to loudspeakers. Everybody can listen and get timely—even critical—information.

"Just hearing the traffic flow generates more sales. It projects the environment at the other end of the line. You're practically right there."

Mr. Dominach is also enthusiastic about the use of the 800 number in advertising. "Of the leads generated by our

national print advertising," he says, "41 per cent comes from the 800 number."

As part of another program, the Bell System and Bache are teaching telephone selling skills to account executives who have never been in the business before. Results have been highly successful.

Mr. Dominach concludes: "Now that Bell has instituted specialized account teams, we find assistance coming to us, rather than our going to them. Al Lewis, the Bell Account Executive, practically lives at Bache."

What's available to Bache is available to all business—free. One Bache officer says: "We ask for something, and they usually come back with an original idea." To get this kind of service, talk to your problem-solving Bell Account Executive.



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Nation's Business

VOLUME 66 • NUMBER 12 • DECEMBER 1978

Nation's Business is the business advocate magazine leading the effort to strengthen the private enterprise system to advance human progress.

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Cover Photo: Jan Faul

Nation's Business is published monthly at 1615 H Street N.W., Washington, D. C. 20062 by the Chamber of Commerce of the United States. Editorial and circulation headquarters—1615 H Street N.W., Washington, D. C. 20062; Editorial—(202) 659-6010; Circulation—(202) 659-6020. Advertising headquarters—711 Third Avenue, New York, N. Y. 10017; telephone (212) 557-9886.

Subscription rates: United States and possessions, \$49.75 for three years; in Canada, \$20 a year. Printed in U. S. A. Second class postage paid at Chicago, Ill.

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The Nation's Business WASHINGTON LETTER

► **SELECT FROM THE FOLLOWING:**

1. Continued inflation.
2. Recession.
3. Mandatory wage-price controls.

Our sources tell us these are about the only alternatives foreseeable in the near future.

Here's why:

► **PRESIDENT NOT ATTACKING** inflation at its root.

Economists say main culprit in rising prices is government fueling of economy--too much spending, interference at time when government should be backing off.

Here are National Chamber's lead anti-inflation suggestions to Senate Banking Committee last month:

Slow growth of federal deficit spending; slow growth of federal taxes.

► **BUSINESS, UNIONS** big targets of Mr. Carter's anti-inflation program, but already his program under fire.

Business leaders, keeping mostly mum publicly, tell us in private they're concerned the President's complicated price program will lead to inequities, to more government meddling in the free-enterprise system.

This leads to host of problems, further deters inflation-fighting investment, research, and development.

AFL-CIO calls for mandatory wage-price controls almost before ink dry on President's program. Top union leaders don't like White House efforts to hold down wage increases.

► **TEAMSTERS' CONTRACT**, covering 400,000 employees, expires April 1.

If Teamsters push for large wage, fringe-benefit increases--and get them--others sure to demand same. United

Rubber Workers' contract expires April 19. It affects 83,000 employees.

At end of May, Ladies' Garment Workers Union contract ends. Total employees affected: 183,000.

Electrical products workers union agreements end June, July. They involve 150,000 employees.

Big United Auto Workers contract, covering 660,000 employees, ends Sept. 14. And there are others.

Whatever progress President's anti-inflation program could make by April 1, when Teamsters' contract expires, may go up in smoke if Teamsters' settlement too large.

Mr. Carter, with first presidential primary less than year away at that time, would most likely take firmer steps to bring inflation down.

► **MANDATORY WAGE-PRICE CONTROLS** possible between April 1 and early fall.

Our sources tell us such controls would bring down published inflation rates, help Mr. Carter's image with electorate.

Keys to controls lie with union demands for increased wages, fringes, and whether recession sets in.

U.S. economy operating close to capacity. Little chance, with large federal deficits, for inflation to diminish. But recession will slow economy and, coupled with President's tight-money program, inflation should lessen. That's one key.

Other rests with unions. If recession does not occur and union wage settlements are high, President will have to act to protect himself politically.

Result? Mandatory controls.

► **UNIONS HOPE TO TIGHTEN** antitrust exemption to federal law next Congress

with Sen. Edward M. Kennedy (D.-Mass.) in driver's seat of Judiciary Committee.

Sen. Kennedy next in line, expected to become chairman of powerful committee.

Recent inroads--1975 Supreme Court decision and action by Federal Trade Commission--have lessened unions' exemption in antitrust area.

They don't like it, hope Congress will shore up exemption. Sen. Kennedy, as chairman of Judiciary, likely vehicle. The senator's COPE voting record consistently hovers near 90 percent.

If unions successful, business would have tougher time warding off union activity such as secondary boycotts of nonunion employers.

► **DAVIS-BACON ACT** subject of study by task force of top business, construction association members.

Reason: Attempt to lessen inflationary impact of Davis-Bacon on construction industry, overall economy.

Any construction contractor with \$2,000 or more federal contract falls under Davis-Bacon, must pay average area wage to workers. In practice, area wage can encompass workers miles away from work site. Wages paid union workers 50, 100 miles away from job site could be included in computation of average.

Result: Union wages could force up wages paid on federal construction jobs.

► **CONSTRUCTION COSTS** increased as much as 15 percent because of Davis-Bacon Act, economists say.

Davis-Bacon is inflationary. In fact, General Accounting Office study, to be released after first of year, expected to show Davis-Bacon forces up costs.

Business, construction task force plan to present recommendations on Davis-Bacon to White House, Congress.

► **DON'T EXPECT ROLLBACK** of Jan. 1 social security tax increases. Experts we talk with say it will not happen.

Social security trust fund in poor shape--more money flowing out than coming in.

Funds are needed, enough so that necessity for some financial stability

will override political considerations. Tax rate Jan. 1 goes from 6.05 percent to 6.13 percent with wage base rising from \$17,700 to \$22,900.

Tax hike will hit higher salaried.

Example: Salary of \$10,000 annually will see increase of \$8 next year in social security taxes; salary of \$20,000 will feel additional tax bite of \$155.

► **FEDERAL CIVILIAN EMPLOYEES** will be contributing to social security trust fund--that's almost foregone conclusion.

Only questions remaining: When and how it will be accomplished.

Federal civilian employees would contribute about \$2 billion annually to trust fund. When coupled with matching funds from employer--federal government--total contribution would be about four percent of annual receipts.

This could offset private employee, employer taxes. Result could permit slowing of tax rate increases after 1980.

Our sources tell us Secretary of Health, Education, and Welfare, which oversees giant social security system, probably will recommend sometime next year inclusion of federal civilian employees.

Congressional study on issue now under way, due for completion December, 1979.

► **SMALL BUSINESS WILL DO WELL** in next Congress, top Senate small business committee aide tells us.

Since 1975, small business issues gaining momentum in Congress, despite recent presidential veto of omnibus small business bill. Increased recognition by legislators that small business is important segment of society, big contributor to gains.

Additional exposure from publicity leading to 1980 White House small business conference will help add fuel to small business fight.

► **REMINDERS:** Minimum wage goes to \$2.90 per hour Jan. 1 from current \$2.65.

Retirement age goes to 70 Jan. 1. Affects firms with 20 or more workers.

Susan Handley and Jane Rogers
each earn the same income. But Susan's investment
portfolio wouldn't do a thing for Jane.



Parker/Hunter put them both where they ought to be.

Similar incomes don't necessarily mean similar goals or lifestyles.

Take Susan Handley. She makes \$25,000 a year, she's going to retire soon, she lives alone. So she needs capital-conserving, interest-generating investments, and she needs them now.

A close look at her objectives told Parker/Hunter that Susan ought to be in blue-chip stocks, bonds and tax-deferred annuities, where her money would be safe, her returns generous and her income steady. A classic no-risk situation.

Jane Rogers? She can afford to take chances: she makes \$25,000, too, but she's married and wants to keep

working indefinitely. So Parker/Hunter helped her build a package that included higher-risk appreciation stocks to build up her capital, along with a plan to help defer some of the taxes on her earned income.*

There's no reason for you to buy stocks just because we happen to sell them.

We sell lots of things: municipal bonds, mutual funds, insurance, corporate bonds and the like. But before we sell you any of these, we'll try to find out which one — or which mix — makes the most sense for you.

With your help, we'll take a careful look at you: your goals, objectives, current holdings, tax liabilities. And then we'll

start to build an investment program—one that's designed specifically for you.

Just as we did for Susan Handley and Jane Rogers.

It's simple: before we put you where you ought to be, we'll try to find out where you're coming from.

And who you are.

Call Parker/Hunter at 562-8000. Or write: 4000 United States Steel Building, Pittsburgh PA 15219.

* We have used fictitious names, professional models and hypothetical situations, but the situations described here are similar to those we encounter every day.

This illustration does not constitute a current recommendation to buy, sell or hold securities, which depends on market and company conditions and the changing needs of the client.

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TOMORROW? Outages, brownouts and blackouts are becoming often-occurring features of our modern lives. These power failures are not welcomed in hospitals, stores, businesses, factories, mines or homes. For the loss of utility power can mean the loss of emergency and other services, perishable goods, valuable work time...and even lives as well as the costly disruption of schedules.

Some people already know about the advantages of standby power...that it can be the light in the darkness. That it can offer the electrical energy needed to power elevators, keep heating and air conditioning units performing and run machines, tools and assembly lines.


There are engine and equipment companies who know what size emergency power you need and how to install it on your property. How this same power can be made to cut in automatically when normal utility power cuts out. How it can perform on several different kinds of fuel. And how it can double not only for standby power, but for low cost, prime power as well.

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IT COULD HAPPEN.



Should the Minimum-Wage Hikes Be Delayed?

In 1977, Congress approved a four-step increase to bring the federal minimum wage from \$2.30 an hour to \$3.35 an hour on Jan. 1, 1981. That is a total 45 percent boost.

The wage floor went to \$2.65 an hour last Jan. 1 and will go to \$2.90 next month. Additional increases scheduled under existing law will send the hourly wage to \$3.10 in 1980 and \$3.35 a year later.

Most Washington spokesmen for business vigorously opposed increases of the magnitude called for in the bill. A 45 percent increase, they pointed out, would intensify two of the nation's most serious economic problems—inflation and unemployment among young people.

Surging inflation, they said, was already threatening recovery from the recession of the early 1970s, and one public opinion poll after another dem-

onstrated that American citizens were more concerned about inflation than anything else.

Also, many employers would find it financially impossible to pay the increased wages and would be forced to lay off workers and curtail hiring at the entry level. Such actions usually impact most severely on younger and minority workers, whose unemployment rate is already far above the average.

Those anticipated effects of the minimum-wage increase are already happening to some extent. Several economists have pointed out that the mandated increase has been a factor in continuing inflation and has intensified the problem of youth unemployment.

Business is therefore supporting legislative proposals to defer for two years the increases scheduled for 1980 and

1981. Economists at the Chamber of Commerce of the United States estimate such a move would mean a \$425 gain in purchasing power for the average American household and the creation of 850,000 additional jobs.

Opposition to a deferral is led by organized labor, which views the wage floor as a device to put strong upward pressure on wages at all levels. Those who say the scheduled increases should be allowed to take effect also insist that low-wage workers are entitled to cost-of-living adjustments.

Failure of the wage level to keep pace with inflation means continuing erosion of purchasing power for those at the lower end of the income scale, say supporters of the hikes.

What do you think?

Should the next scheduled minimum-wage hikes be deferred for two years? ☐ Yes ☐ No

PLEASE CLIP THIS FORM FOR YOUR REPLY

Wilbur Martin, Editor
Nation's Business
1615 H Street N. W.
Washington, D. C. 20062

Should the minimum-wage hikes be delayed for two years?

☐ Yes ☐ No

Comments:

Name

(PLEASE PRINT)

Title

Company

Street address

City

State

Zip

The Government's Front Four March On

Please accept my most hearty congratulations on your October cover. The football lineup really says it all.

I noted the unfairness of the lineup with four government front men against business and taxpayers. Further, the government is on the offense while business is fighting a defensive battle. I also wonder if it is coincidental that the government's protective helmets are gold-colored.

After 17 years of fighting government bureaucrats, I decided to sell my business.

I had a potential buyer, but before the deal was consummated, a government antitrust lawyer promised a complete investigation if we should attempt to continue negotiations.

The merger would not have violated either of the two basic provisions of the antitrust law—predominance in one's geographical area or predominance in one's area of expertise. However, who can afford the legal expense to fight tax-paid lawyers for years?

We informed the government lawyer that negotiations were terminated. A final letter stated that the government expected to be kept informed if this acquisition should ever be reconsidered.

I have now taken the only avenue

remaining—liquidation of the business. About 125 people have lost their jobs. And the inveterate front four march on.

C. W. VAN BEBBER
Porterville, Calif.

Good regulation

Your article, "Is a Regulatory Revolt Next?" [Oct.], while interesting and thought-provoking, incorrectly included all regulatory bodies as causes of inflation.

Government regulation of interstate commerce through the Interstate Commerce Commission has been effective for many years, functioning in the best interests of business and the public. In establishing the ICC, Congress provided a fair, efficient, and economically sound transportation system that would protect and encourage short and long-range economic development of our nation. This system has successfully provided equitable service and prices to all.

While it is easy to speculate that deregulation of both service and pricing will result in a reduction in costs to consumers—those of us directly involved and experienced in the economics of transportation believe that service and price restrictions to small businesses and communities eventually would result in higher prices to consumers.

This would occur as businesses were forced to relocate to more attractive locations to get competitive service and prices. In addition, after a shakeout of many smaller carriers, there would remain a handful of large carriers, which, with limited competition, could indiscriminately increase prices.

Let's not indiscriminately paint all regulation with the same broad brush.

PHILLIP J. COHEN
Director of Marketing
Lyons Transportation Lines, Inc.
Erie, Pa.

Offensive game plan

I am disappointed with your October cover. The analogy for the article, "Is a Regulatory Revolt Next?," is fine, a line of scrimmage with the regulatory

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agencies on one side and business and taxpayers on the other. But the government has the ball. The private sector is on the defense, and therein lies my criticism.

It seems to me that the first necessary step to promote the idea that something can be done about the plethora of governmental regulations that are nearly strangulating business and accelerating inflation is to create a positive frame of mind.

We must first believe that we can act affirmatively or, to use the analogy portrayed on your cover, we must believe that we can be on the offense?

I would have preferred that your cover had given us the ball, thereby showing that the private sector can be on the offense.

ROBERT DUVAL
General Counsel
Pittsburgh-Des Moines Steel Co.
Pittsburgh, Pa.

Looking for a defense

Your cover for October by Mike Webster was one of the best I have ever seen. It is so descriptive of the times.

I am concerned about the future of

such offense. Where, oh where, can be found the most effective leader of the defense to stop the increasing power of the offense?

GEORGE B. RADFORD, JR.
Marketing Vice-President
National Trust Life Insurance Co.
Memphis, Tenn.

A \$210 million impact

Your article, "Is a Regulatory Revolt Next?" [Oct.], was most timely and appropriate, particularly in view of the regulatory demands now developing from the Federal Mine Safety and Health Act Amendments of 1977.

The National Crushed Stone Association, whose members quarry stone for construction, agricultural, environmental, and chemical uses, has been engaged in continuous battle with the Mine Safety and Health Administration over its refusal to supply economic impact statements for proposed new standards and rules, as called for in Executive Order No. 12044.

There are now 370 mandatory standards for our industry, and the mine agency has just proposed changing 161 advisory standards to mandatory. Included is one which requires air-condi-

tioning and heater-defrosters in all equipment cabs that operate in extreme weather and environmental conditions.

With no definition of extreme weather or environmental conditions established, most members of the crushed stone industry assume that all equipment will have to be so equipped.

Air-conditioning compliance for the 5,000 industry operations will require a capital expenditure of about \$150 million. There is no phase-in time for these standards nor any grandfathering of equipment.

Another 15 of the proposed mandatory standards require new inspections and recordkeeping by the operator. Very conservatively, this will add at least another \$60 million in regulatory costs.

Total sales of the crushed stone industry are \$2 billion a year, with the average price per ton about \$3 at the plant.

It is incredible that the Mine Safety and Health Administration does not consider the immediate addition of \$210 million or ten percent of the total sales of the industry to be of significant economic impact.

Our industry is not consumer-visible, but the increased costs borne by the crushed stone industry will ultimately be paid by all of us—in tax dollars for roads and public works construction; in the food dollar for costs of soil nutrients; in utility bills for the cost of environmental flue gas scrubbers; and in general commodity costs for steel flux, aluminum, putty, glue, soap, furnaces, medicine, cosmetics, and hundreds of other products.

Yes, it is definitely time to confront the federal agencies in their inflationary, regulatory exercises.

WILLIAM L. CARTER
President
National Crushed Stone Association
Washington, D. C.



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The other side

The article, "Hunting: An American Tradition," [Oct.] makes hunting sound as if it is patriotic, relaxing, and part of the good ol' American way. Why don't you show what hunting really is: a cruel, sadistic, barbaric, and antilife act.

Why anyone would want to kill an intelligent, endangered animal such as an elephant is beyond me. What are these moronic hunters going to do when the elephants are gone—start shooting people?

BARBARA KRANE
Roselle, Ill.

The Good Old Tide of Conservatism

I CANNOT REMEMBER a time, even in the heyday of Barry Goldwater 14 years ago, when there has been so much interest in conservatism. The bird dogs of television are casting about, sniffing on the trail of the New Right. Pollsters are probing our political psyche, seeking to establish a trend away from the liberalism of recent years. The election returns a few weeks ago were added up in terms of Democrats and Republicans because that is the only way we know how to keep score, but the returns are now being analyzed not in terms of parties but in terms of philosophies.

What is conservatism as distinguished from liberalism? Is there truly a conservative movement stirring? If so, where is it likely to lead?

Such questions have far greater political relevance than the usual questions relating to Democratic victories or Republican losses. In terms of conventional labels, the incoming 96th Congress will show no significant changes from the 95th. The Democrats will remain in full command. But the 95th Congress was surprising in many respects. On paper, given the two-to-one Democratic majorities in House and Senate, the 95th should have sent a host of liberal measures to the Democratic President in the White House. It didn't work out that way.

ON THE CONTRARY, the 95th Congress saw liberalism routed on a dozen fronts. The "Congressional Quarterly," which keeps tabs on such things, found the conservative coalition making significant gains. Americans for Democratic Action, which grades members of Congress in terms of their liberalism, gave 113 members of the House a grade of 80 percent or more in 1975 but could find only 70 members in 1977 who warranted such a score. By contrast, the Chamber of Commerce of the United States, which scored 100 House members at 80 or above on their conservatism in 1975, happily awarded 80-plus scores to 131 members in 1977.

The dramatically changing scorecards provide empirical evidence of a new conservatism at work, but there was much more. With the exception of the measure to extend ratification of the Equal Rights Amendment, it is hard to think of a single liberal bill that was enacted. The minimum wage bill might provide another exception, but that bill was stripped of its most objectionable features before passage. Other bills beloved by organized labor and by the liberal community generally went gurgling down the drain. Labor reform, cargo preference, repeal of the Hatch Act, public employee unionism, direct election of presidents, federal funding of congressional elections, and creation of a consumer protection agency were all defeated.

A distraught Sen. George McGovern, (D.-N.D.), voicing the disgust of American liberals, denounced the record of the 95th. Conservative spokesmen such as Sen. Jesse Helms (R.-N.C.) sounded a more cheerful note. By any comparison, the 95th Congress was less liberal and more conservative than its immediate predecessors. Conservative stirrings in the grass roots were reflected on Capitol Hill.

FROM TIME TO TIME, we are told that the terms liberal and conservative have no clear meanings. I deny this absolutely. Once we get away from kindergarten levels of political understanding, the differences between liberals and conservatives are well understood. Conservatism is widely seen as a body of convictions, attitudes, and doubts that are signifi-



cantly opposed to the convictions, attitudes, and doubts by which we identify liberalism.

The first tenet of a conservative philosophy deals with the metaphysical: Everything in our world exists because of a grand design. The sun and moon, the planets and galaxies of our universe were not created by accident; birds, beasts, insects, atoms, neutrons, all fit into a divine order. There can be no true conservative conviction without an acceptance of this sobering, humbling truth—that a higher intelligence exists beyond human intelligence, that material explanations cannot suffice for all the wonders around us.

It is from this conviction that conservatives draw their doctrines on the relationship of man and the state. To the conservative, the state can never be supreme. Conservatives believe in order, loyalty, patriotism, and obedience to law, but they perceive the individual man or woman as first a child of God, not a ward of the state. Individuality lies at the very heart of a conservative philosophy. This recently was

driven home to me. A Jesuit priest, whom I debated in New Orleans on the question of abolishing right-to-work laws, was wholly concerned about collectivity and the bargaining unit; he cared not a fig for the nonunion worker. Conservatives are interested in the common good, but they insist that the one stubborn, nonconforming, maverick human being must not be trampled by the mass.

What about this individual human being? Conservatism insists that he is not necessarily perfectible by the very best manipulations of the state. Is that a cynical view? I would call it a realistic view. Conservatism tends to see man as a mixed bag of instincts, filled with passions that must be restrained and generous characteristics that ought to be encouraged. But the instrumentalities of the state—schools, colleges, day-care centers, jails, hospitals, museums, art institutes, regulatory agencies—none of these will induce virtue. Conservatism says, pessimistically, that you can build public housing projects till kingdom come, and vandals will still knock out the windows.

CONSERVATIVES tend to believe in other doctrines that they regard as eternal verities. Let me set down a few of these at random. Conservatives do not believe in the equality of men. The notion that "all men are created equal" they regard as false, and for the best of all reasons: Because it is not so. That was John Randolph's conviction, and he spoke for the ages. This is not to say that conservatives are opposed to equal justice under law or to equal opportunity in the marketplace. But conservatives doubt that the ideal of equal justice can ever be achieved and they strongly resist the efforts of latter-day egalitarians who would level society by penalizing the industrious fellow in order to coddle the bum.

Conservatism does not shrink from the concept of aristocracy—an aristocracy of merit. Conservatives accept, as a matter of palpable fact, a social structure of lower classes, middle classes, upper classes, roughly defined in terms of wealth, taste, and values. Yes, says the conservative, there are enduring values, and these are reflected in conservative attitudes toward art, architecture, literature, and music no less than in attitudes toward law and government.

It is true, as a general proposition, that conservatives look to the past and liberals look to the future. We tend to resist change just as our liberal brothers tend to embrace it. Conservatives make good historians, liberals make good novelists. In our philosophy, a large deference is owed the wisdom of ancestors, mentors, and founding fathers. We adhere to ritual, to ceremony, to tradition. Catholics who deplored the abandonment of Latin in the mass were identified as conservatives. Those who opted for vernacular masses to the tune of rock guitars were styled as liberals. Conservative Episcopalians are fighting to preserve a Book of Common Prayer that is a work of consummate beauty; their liberal brethren are swinging to newfangled liturgies that convert the familiar to the unrecognizable.

BUT RESPECT for enduring values does not involve a rigid adherence to uniform institutions. On the contrary, it is the contemporary conservative who fights in Congress against the forces of regimenta-

tion. To the conservative, the principle of federalism is the very foundation stone of government. The Tenth Amendment is carved upon his heart of hearts. Thus liberals tend to support a comprehensive, uniform, compulsory system of national health insurance; conservatives would rather go the voluntary way. Liberals urge a federal standard for no-fault automobile insurance, to be imposed willy-nilly upon all the states; conservatives insist that the states must continue to function as separate laboratories of political experiment. By the same token, conservatives hotly oppose the direct popular election of presidents; they see such an innovation as the death of a federal compact.

Underlying some of these conservative positions is the conservative's suspicious view of power. Experience has taught us that power is the name of the game. Our basic political concerns have to do with how one gets power, holds it, uses it, loses it, and restrains it. Conservatives are wary of great power, in big government, big labor, big business, and big media. Perhaps we are overly suspicious, but on that point we remember Patrick Henry's counsel to the constitutional convention in 1788:

"Too much suspicion may be corrected. If you give too little power today, you may give more tomorrow. But the reverse of that proposition will not hold. If you give too much power today, you cannot retake it tomorrow, for tomorrow will never come for that purpose."

THERE IS MUCH MORE, of course, to the conservative philosophy. Conservatives view property rights as the first of all human rights. They put a high value on a sense of place, of roots, of attachment to Burke's "little platoon we belong to in society." The old virtues—industry, ambition, self-reliance, civility, honor—are important aspects of today's conservatism. Because we hold firmly to the concepts of a voluntary society, we resent the incessant compulsions of the superstate. Leave us alone, we are forever crying. Men were not meant to be sheep nor governments to be shepherds. As long as an individual's conduct does not seriously encroach upon the rights of others, we urge that the individual be free to go his own individual way. Live and let live, says the conservative. Live and let live, agrees his liberal brother, but live as we decree.

I wish I could say with confidence that conservative doctrines and attitudes are gaining in leaps and bounds. I think there is some gain, but the gains are often masked by a vast amount of hypocrisy. No defender of the enterprise system is stouter, more eloquent, more spirited, or less impressive than the businessman who loves competition—for somebody else. I have known conservative countrymen in Virginia whose idea of personal freedom, once they got on a school board, was to ban "To Kill a Mockingbird." Conservative ideals are sacrificed all too often to expediency, self-interest, and greed.

But the philosophy is very much alive as we move into the last two decades of this century. The liberalism that manifested itself in big government, big spending, big deficits, and pervasive regulation has probably peaked. Little by little, unless I am wholly mistaken, the good old tide returns. □



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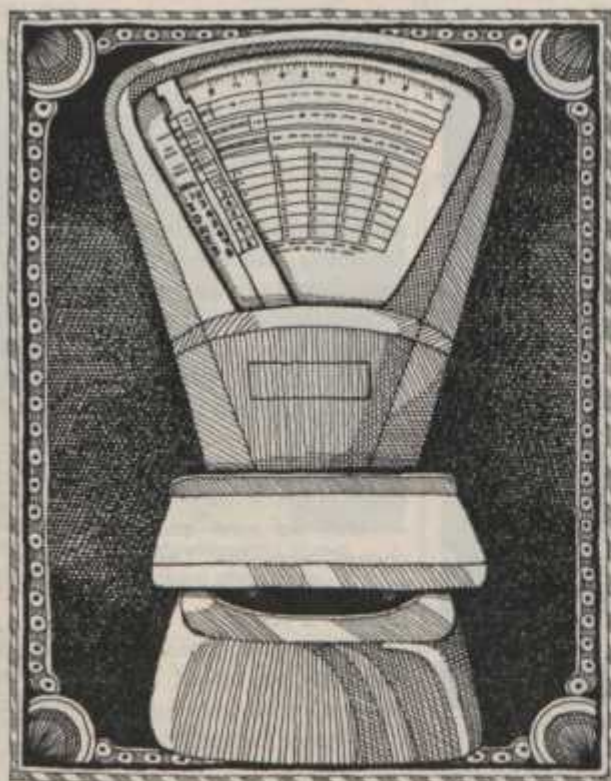
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THE ECONOMY

Wage Insurance Will Be Hot Congressional Issue

Despite its best efforts to interpret the President's anti-inflation program, the Council on Wage and Price Stability can't predict what will be done about the proposed wage insurance. That part of the program is up to Congress.

Under Mr. Carter's plan, all employees who comply with the seven percent pay standard in 1979 would get some type of tax rebate if consumer prices rise by more than seven percent during the year.

Thus, if inflation ran eight percent, the rebate could easily total \$10 billion to \$15 billion.

It is guaranteed to be a hot issue in the next Congress and already has

stirred up more disagreement than any other part of the program.

Alice M. Rivlin, director of the Congressional Budget Office, thinks Congress probably won't be very enthusiastic. While the idea is "intriguing to a few people, it is viewed as a kind of gimmicky thing," she says.

But Thomas Dernburg, senior economist for the Joint Economic Committee of Congress, calls it a "constructive and novel" approach, no more gimmicky or illogical than using tax incentives to spur insulation, exports, or business investment.

Council Chairman Alfred E. Kahn says the White House will send its proposal to Congress in January. But at this point, he says, it is sketchy, and most of the details have to be worked out. A spokesman at the council comments: "It still needs a lot of fine-tuning."

New Jobs Expected From Gas Decontrol

Passage of the administration's energy program will result in an increased supply of natural gas sources and will help create nearly one million jobs by 1985. This prediction comes from the American Gas Association.

AGA President George H. Lawrence says that about 300,000 new jobs will be created in developing, manufacturing, and transporting gas from new sources. Another 600,000 jobs could develop in manufacturing industries, some of which rely heavily on natural gas. Stone, clay, and glass businesses, for example, could create about 17,000 new jobs.

Other industries that may benefit from an unrestricted gas supply include primary metals, which could develop 39,000 new jobs; machinery, 165,000 jobs; transportation, 38,000; fabricated metals, 40,000; farming, 57,000; mining, 59,000; and commercial business, 537,000. These estimates are based on an AGA study.

Under the new energy program, price controls will be lifted in stages for newly discovered natural gas. Energy Secretary James R. Schlesinger estimates that this could put 30 percent more gas into the interstate market by 1985, which in turn would reduce oil imports by 2.5 million barrels a day.

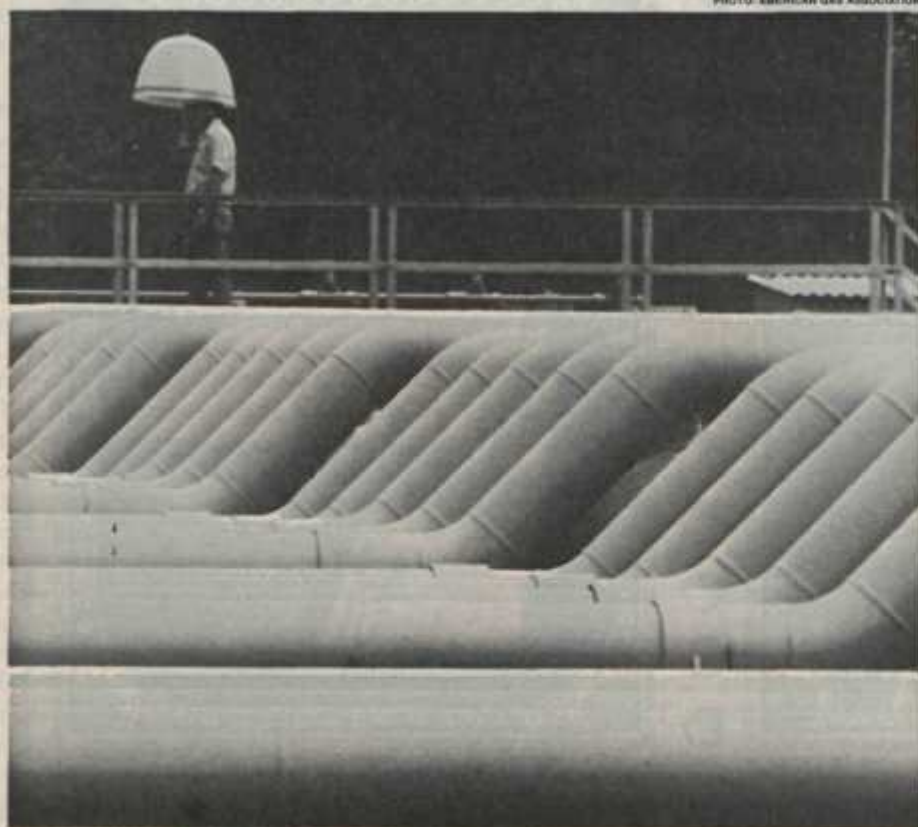
Gas prices are expected to rise because of decontrol.

"But no new energy will come cheap," says Mr. Lawrence. "The increase will be modest—about three percent a year."

He says that residential consumers presently pay about 50 percent more for heating oil than for gas and several times more for electricity.

Construction Spending Up, Building Volume Down

Spending for new construction will increase by two percent next year, but inflation will gobble up any real gains, says the Department of Commerce.



Natural gas: Passage of the President's energy program could create about 900,000 new jobs by 1985 in the gas industry and in manufacturing.

The department predicts spending for new construction will advance by two percent to \$201.6 billion in 1979. But in terms of physical volume of completed structures, the 1979 outlays will be about six percent below the 1978 level and about 15 percent below the record high established in 1973.

Commerce, which assumes an inflation rate of about eight percent within the vast construction sector of the economy, expects a drop in private housing starts from a booming two million in 1978 to 1.65 million in 1979. This decrease will be largely offset by increased construction of new, energy-efficient industrial plants, office buildings, and shopping centers, as well as by sizable construction of public sewer systems.

CORPORATIONS

OSHA Drops 928 Nitpicking Standards

The Occupational Safety and Health Administration has eliminated 928 nitpicking standards, slightly less than the 1,100 deletions predicted by OSHA a year ago.

PHOTO: GEORGE JAMES



OSHA's Bingham: Moving right along in eliminating nitpicking standards.

OSHA says the deletions comprise ten percent of the total word volume of all its standards.

Dr. Eula Bingham, assistant secretary of labor for OSHA, says: "Getting rid of nitpicking and irrelevant provisions enables all of us to concentrate on reducing or eliminating the more serious and significant workplace safety and health hazards."

Dr. Bingham said that of the 928 standards, 607 were general industry and 321 were special, covering barrel-

making, bakery equipment, and laundry machinery and operation.

The revoked general standards included those covering U-shaped toilet seats, the type of wood used for portable ladders, the height for mounting fire extinguishers, minimum-age requirements for certain jobs, dikes and drainage areas around storage tanks, and the location of certain buildings in relation to public thoroughfares.

ICC Petitioned to Permit Market to Set Bus Fares

The Interstate Commerce Commission's liberalized policy has prompted a petition by Trailways, Inc., to allow bus fare reductions on regular intercity passenger routes without specific ICC approval.

The bus company, which is also seeking more flexibility in charter trip pricing, argues that the ICC's "liberalized entry requirements ensure sufficient competition to let the market determine the price."

Formal comments on the proposals have been submitted by the Federal Trade Commission, which supports Trailways but says the rule-making should include the issue of entry into the business. The FTC says that entry as well as price must be deregulated to achieve meaningful competition.

SMALL BUSINESS

Vetoed Bill Expected to Resurface Next Year

President Carter, who vetoed a major small business bill as inflationary and incompatible with good executive branch management, can expect similar legislation in the next Congress.

Rep. Neal Smith (D-Iowa), chairman of the House Small Business Committee, says he will reintroduce the legislation early next year. He would not elaborate on whether it would contain the same provisions or reflect administration views that it be scaled down.

In vetoing the bill "with great regret," the President said: "This bill is not the best we can do for small business and is inconsistent with the tight budget situation we will face in the next few years. It would also interfere with the ability of the administrator of the Small Business Administration to run that agency effectively."

But Rep. Smith says the President

received bad advice from White House staffers and apparently was misinformed not only on the provisions of the bill but also on other measures and actions affecting small business.

As passed by Congress, the bill's amendments to the Small Business Act and the Small Business Investment Act of 1958 would have authorized higher interest rates on disaster loans; provided more money for the small business development center program now in pilot stage; redefined the role of the SBA's chief counsel for advocacy; established a new class of SBA-licensed investment companies to specialize in making equity-venture capital available to small businesses; and set aside money for states to prepare for the 1980 White House Conference on Small Business.

INTERNATIONAL BUSINESS

Loss of Auto Plants to Canada Feared

A group of congressmen, banded together as the Northeast-Midwest Congressional Coalition, wants to discourage foreign governments from offering U.S. companies cash incentives to locate abroad. In the past, the coalition has focused on threats from the Sunbelt.

"Recent Canadian efforts to attract American automobile plants threaten to accelerate the drain of jobs and tax revenues from industrial states in the region," says Rep. Robert W. Edgar (D-Pa.), chairman of the coalition.

Coalition co-chairman Frank Horton (R-N.Y.) adds that the U.S. auto industry may shift a sizable portion of the \$35 billion it plans to spend on new plants and equipment in the next seven years outside of the United States.

A third coalition member, Rep. Tenney Guyer (R-Ohio), says states cannot compete with foreign governments, and "the U.S. government is prohibited from offering... cash subsidies."

Third World Is Good Market for Agriculture

Growing agricultural needs of third world countries represent a golden export opportunity for American agribusiness.

Statistics provided by Price Waterhouse Associates (International), show

that nearly \$21 billion is now available through international financial institutions for agribusiness projects aimed at alleviating agricultural hardships in developing countries.

Stefan A. Halper, Price Waterhouse senior manager, says agriculture is the one sector of the economy that has always done well on the export market. This year, agricultural exports will exceed \$27 billion, the highest volume ever.

"Our agricultural exports—both commodities and equipment—basically supply the rest of the world with its needs," Mr. Halper says. "With the growing food crisis, the U.S. will be the main source of agricultural products. But we must do what we can to ensure that other countries develop their own food supplies."

Such assurance can come through exporting U.S. technology and expertise. Technology transfer is a must, he says.

The Department of Agriculture reports that overall economic growth in non-OPEC developing countries—five percent this year—will continue to expand faster than in the developed countries.

AGRIBUSINESS

Farm Equipment Thefts Cost \$1 Billion a Year

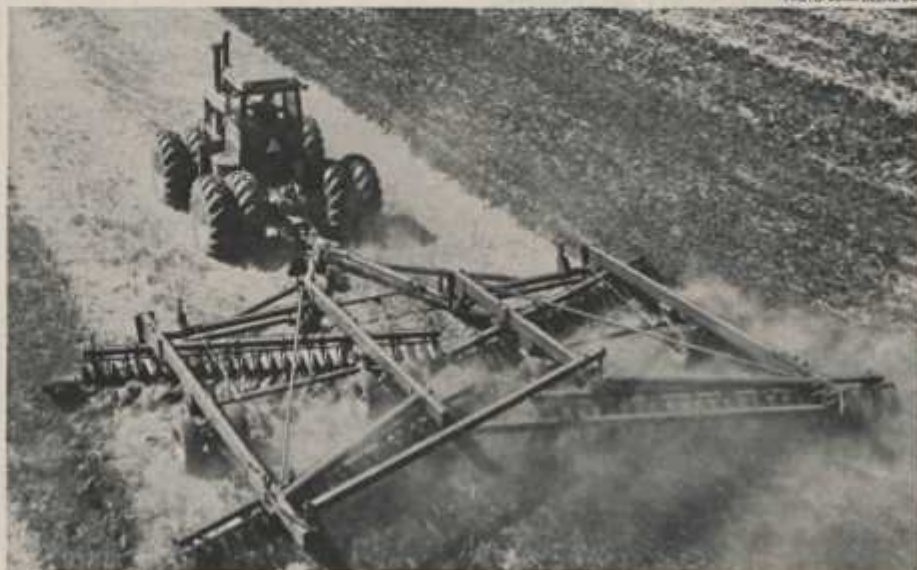
Farmers lose \$1 billion a year from equipment thefts, says the American Farm Bureau Federation. Stolen goods include such items as \$25,000 tractors and \$75,000 combines, and the thefts are usually committed by crime rings.

Sen. Charles H. Percy (R-Ill.) added farm equipment to a bill in the 95th Congress that would have authorized a study of auto thefts, but the legislation died. Sen. Percy says he will reintroduce the bill next year.

Part of the problem, experts agree, results from the lack of identification numbers on farm machinery. At best, manufacturers stamp only a production line number on such equipment. Machinery produced on the same assembly line on the same day would

carry identical ID numbers. The system makes it difficult for insurance or police investigators to trace the stolen goods.

While unique identity numbers would help police in tracing stolen equipment, Sen. Percy says, "we must make certain that no burdensome regulations are imposed that would require farmers to purchase costly state licenses or titling documents."



Crime in the fields: While the nation's major vehicle theft problem is autos, farmers are hit hard too, losing an estimated \$1 billion annually in equipment.

BUSINESS TRENDS

High Interest Rates Breach S & L Buffer

Mortgage lenders have lost their buffer against inflation as money market rates have skyrocketed. Many savings and loan associations have stopped issuing the six-month certificates of deposit that were competitive with Treasury bill rates; others have clamped on a ceiling well below what the Treasury pays.

Last June, when S & Ls were first able to offer the special \$10,000 denomination certificates, they could pay investors just under eight percent on a ten percent mortgage. This kept cash in their institutions for making mortgage loans.

When the President moved to halt the decline of the dollar and interest rates went up, the institutions were paying out in compounded interest just about what they were making on mortgage lending. The buffer was no longer cost-effective.

Because S & Ls can no longer compete with the high interest rates being offered in the money market, they are expected to increase mortgage interest

rates. As long as short-term interest rates stay high, industry sources are predicting a recession in the housing industry—and there's no sign rates will come down any time soon.

Firms Will Rely on Inflation-Adjusted Data

More than half of the 1,000 largest manufacturing and mining companies

will be using inflation-adjusted data in their strategic decision-making within the next year, according to a survey by William E. Hill & Co., Inc., a New York City management consulting firm.

Robert E. MacAvoy, vice president of Hill, says: "The accepted principles of measuring costs have proved inadequate for making strategy, planning, or operating decisions."

Roughly 20 percent of the firms responding to the Hill survey said they now use inflation-adjusted profit performance data for internal decision-making. Another 39 percent said they plan to do so within a year.

Survey results show that capital-intensive firms have been much more concerned with the distorting effects of inflation on true profitability than less capital-intensive companies.

PERSONAL BUSINESS

Intermarket Stock Trading to Widen Exchange Choices

You may find it easier to buy stocks soon. By the start of the new year, virtually all stocks listed on the six



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So just now, when that important out-of-town client called him with that *very* important \$10,000 order, his 555 took the order for him.

He's resting easy because he's not missing any potential business. And his clients are comfortable because they aren't hearing a ringing in their ears when they call.

But he's smart in more ways than one.

You see, his 555 is almost like another employee. Yet it works 24 hours a day, 7 days a week. It takes all his calls when he's too busy or out

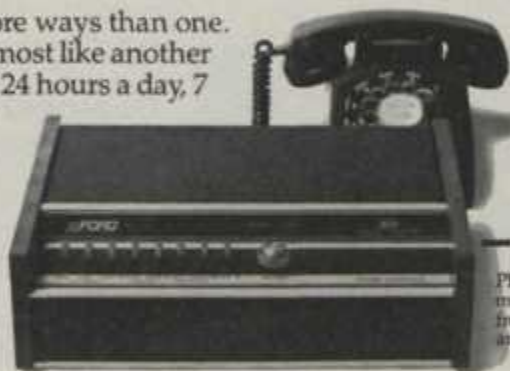
of the office. It records memos. It keeps him in touch with employees and salesmen in the field. It even screens his calls, so he can answer an important call personally when it comes in.

And when he's away, the 555's tiny Pocket Coder lets him hear his messages, play them back, cancel them, or change his recorded announcement. From any telephone, anywhere.

To wake up *your* business profits, check out a Code-A-Phone 222, 333 or 555 at your Code-A-Phone dealer. (He's in the Yellow Pages.)

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major exchanges will be available through the intermarket trading system that allows traders to shop electronically among the exchanges for the best deal on a given stock.

The system began operating last April, with only two exchanges participating and 11 stocks being sold. Currently, 213 stocks are being traded on the New York, Midwest, American, Boston, Pacific, and Philadelphia stock exchanges. The number of stocks will increase to about 1,000 by next month.

A spokesman for the New York Stock Exchange says the last two exchange holdouts have expressed interest in joining the system soon. They are the Cincinnati Stock Exchange and the National Association of Securities Dealers, Inc., which regulates sales of over-the-counter stocks.

Cost of College Education Continues to Rise Steadily

The once inexpensive public college education is now a thing of the past.

A study by the National Association of State Universities and Land-Grant Colleges shows that median tuition and fees for resident undergraduates have gone up nearly 128 percent since 1965. For nonresidents, the hike was 136 percent.

Total charges—including tuition,

fees, room, and board—at major U.S. public universities rose 7.8 percent during the past year.

Median total charges for state residents for the 1978-79 school year were \$2,221, up from \$2,061 in 1977-78. For nonresidents, the bill went to \$3,406, up from \$3,221.

A regional comparison of tuition and fees shows New England has the highest, followed by the Mid-Atlantic, Midwest, Southeast, and West.

GOVERNMENT

GAO: Agencies Lax in Fighting Fraud

Fraud against the federal government ranks fourth among all criminal cases filed by the Justice Department, but not enough is being done by agencies to combat crime, says the General Accounting Office.

As of March, 1978, pending civil fraud suits in Justice totaled about \$250 million and, according to Justice officials, "this amount is only a fraction of the actual amount defrauded from the government."

Agencies surveyed were the departments of Agriculture, Labor, Transportation, and Housing and Urban Development, and the Veterans, General Services, and Small Business administrations. These agencies and others handle \$250 billion annually in economic assistance programs, all susceptible to fraud and related white-collar crimes, says GAO.

GAO's audit showed that "no one knows the magnitude of fraud against the government. Hidden within appar-

ently legitimate undertakings, it usually is unreported and undetected. However, all indications are that fraud is a problem of critical proportion."

Governments Have Created One in Four New Jobs

One factor behind the ever-increasing cost of government is the ever-expanding public payroll. Since 1957, one in four of the 29 million new jobs created by the U.S. economy has been in state and local government. Today, almost one in five of the nation's wage and salary employees work for the local, state, or federal government.

Figures from the Bureau of Labor Statistics show that state and local government employment increased 131 percent from 5.4 million to 12.5 million in 1957-77. In contrast, employment in federal agencies increased only 23 percent, from 2.2 million to 2.7 million workers, and has held near the latter figure for the past ten years.

Barbara Cottman Job, an economist at the bureau, says public employment expanded primarily in response to increased educational needs and social legislation. For example:

- Employment in education increased 150 percent between 1957 and 1977 as school systems absorbed the postwar baby boom, varied their curricula, and geared up to meet the demand for higher education.

- Employment in public welfare, health care, and police protection all more than doubled. State and local governments now employ more than 610,000 people in police departments.

REGULATION

Cooling-Off Sales Rule Expanded by FTC

The Federal Trade Commission has served notice that its three-day cooling-off period on door-to-door sales covers those in all locations away from the seller's place of business.

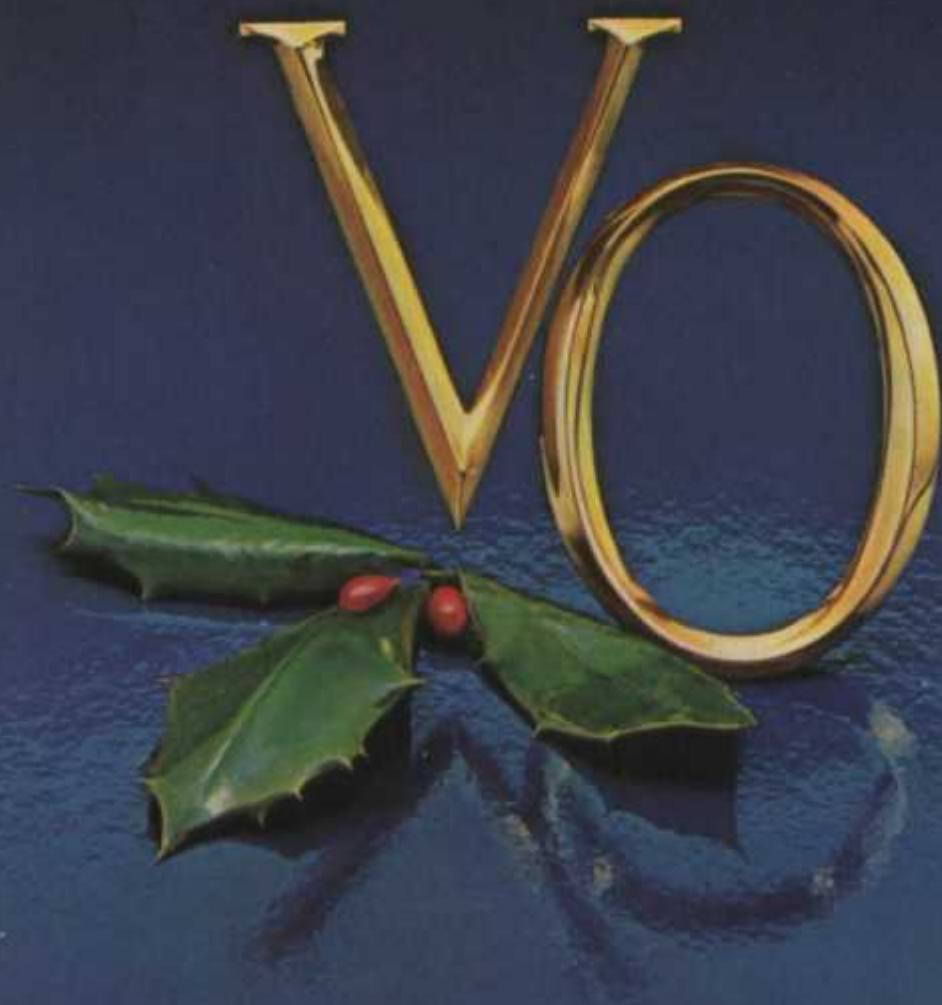
Rented restaurant and motel rooms used for sales, the FTC ruled, will be considered the same as a customer's home, not a seller's place of business.

The rule also applies not only to sellers who ring doorbells but also to those who may be invited to the home. This would include people who do home repairs, landscaping, decorating, and other services as well as those who sell cosmetics, books, and household items.



Still going up: Both resident and nonresident tuition in state universities and land-grant colleges has soared in past decade. No relief is in sight.

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He was simply walking back to his office when the pain hit him.

In less than three minutes, an ambulance with two paramedics arrived.

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Fortunately, the ambulance was equipped with a Motorola APCOR Coronary Observation unit.

It put the paramedics in immediate touch with an emergency physician at the hospital miles away.

Not just by voice communication; that doesn't give a doctor all the information he needs.

But at the very same instant, by Motorola telemetry, an electrocardiogram of the activity of the man's heart was being transmitted.

A miracle of electronics—

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TECHNOLOGY DOES THE TALKING.

A lot of things were happening at once.

The medical assistants at the scene were talking to the emergency room at the hospital.

And the Motorola APCOR was also talking to the doctor in a language only a doctor could understand—by transmitting the patient's EKG. The doctor

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later put popular-priced

TV sets into homes (they're a product we don't make here at all anymore).

Today, Motorola is one of the world's largest manufacturers dedicated exclusively to electronics, as well as one of its foremost designers of custom and standard semi-conductors.


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The New York Stock Exchange has been in a churning frenzy in recent weeks as concern over the dollar's decline and inflation sent stocks yo-yoing.

Traders on the Big Board's floor stare intently as the ticker flashes new prices. Record daily volumes have been posted.



PHOTOS: JIM PAUL



This jammed scene of a portion of the floor of the New York Stock Exchange reflects the hectic activity of heavy trading. Volume has soared above 50 million shares on some days, then plummeted dramatically on other days.

The Riddle of Inflation

By Wilbur Martin

Lots of talk, lots of concern, even some government action, but what really can and must be done about it

"Everybody talks about the weather, but nobody does anything about it."

Charles Dudley Warner

As 1978 draws to a close, this sentiment sums up the mood of the American people toward inflation. Everybody is talking about inflation, but nothing is really being done about it.

Not that the Carter administration isn't finally trying. It has initiated new and tougher efforts, including wage-price guidelines and a tight money supply, to combat what the President calls a long-term disease eating at the economy.

"Too little, too late, too abrupt," is Dr. Jack Carlson's verdict on the President's anti-inflation efforts.

"The program increases the chance of recession from 50-50 in 1979 to 60-40. And it will hurt small business terribly," says the chief economist of the Chamber of Commerce of the United States.

No-confidence vote

Global reaction to the administration's efforts, especially wage-price guidelines, was just as negative.

The dollar, buffeted for months in the international money markets, took

a startling drop in value against other currencies in late autumn. It was a no-confidence vote in U.S. efforts to do something about escalating inflation, which will probably end the year at an annual rate of around eight percent.

For most of 1978, business had urged the government to cut inflationary spending, defer scheduled increases in social security taxes and the minimum wage, and slow the growth of federal regulations which, one economist has estimated, cost each man, woman, and child in the nation \$500 in hidden costs.

The basic part of the administration's anti-inflation fight is to tighten drastically the supply of money through the Federal Reserve. Along with boosting reserves that member banks must hold against deposits, the Fed raised the discount rate a full percentage point to 9.5 percent.

Following the Fed's action, some banks raised the prime rate they charge their best customers to 11 percent, amid predictions by many economists that the rate would go higher before stabilizing or dropping.

The gamble—and hope—is that higher interest rates will cut borrowing and take some of the steam out of

"I do not have all the answers," the President told the nation. He has made fighting inflation his No. 1 domestic priority.



PHOTO: DENNIS BRACK—BLACK STAR

steadily increasing inflation, particularly in consumer goods.

Whatever the outcome, the American public is exasperated with the uncertainty and yo-yoing of the economy. This mood is confirmed by public opinion polls, including those conducted by the President's own pollster.

Complete flip-flop

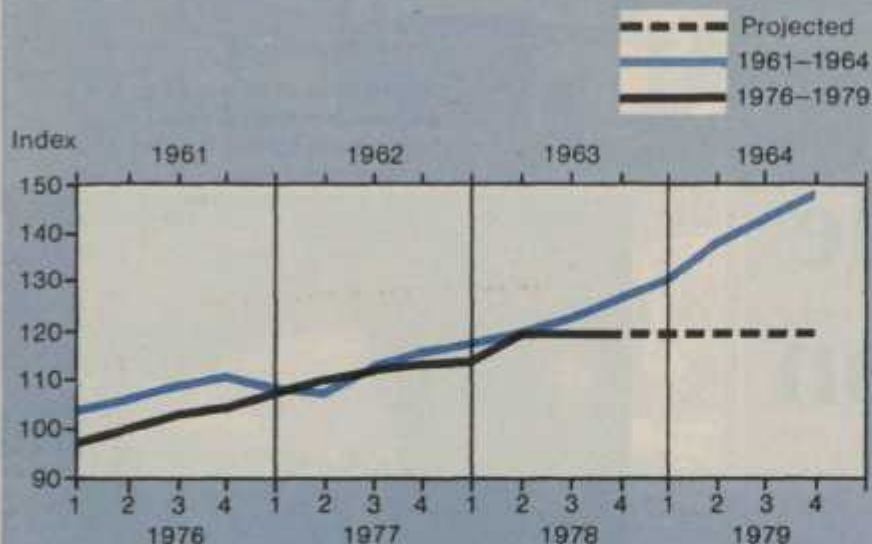
Pat Caddell, head of Cambridge Research Inc., says that for years his pollsters have asked people to agree or disagree with a standard statement: "We have got to learn to live with high inflation; prices will never be stable again."

By the first quarter of this year, Mr. Caddell says, the number of people who agreed with that statement had climbed to an astounding 57 percent. Then, in the second quarter, there was a dramatic drop in the number who agreed. By the third quarter, 55 percent disagreed that you had to live with inflation, almost a complete flip-flop.

"I must tell you honestly that we are not sure what the message is saying," he says. "We think it is a signal of frustration, a signal that people are beginning to reach the breaking point."

There have been thunderous signals

Spending on Plant and Equipment During Economic Recoveries



Source: U.S. Chamber of Commerce Forecast and Survey Center

this year that people want somebody to do something.

Proposition 13, the California property tax measure, was one sign in late spring. Of the 16 states that put tax or spending limitations on the general election ballot last month, 13 were approved by the voters.

But there were other, more portentous signs.

The dollar's tailspin became even sharper after the President's call for

wage-price guidelines, which included an inflation hedge in the wage insurance provisions that Congress must approve.

The stock markets went into a gigantic slide the latter part of October, losing more than 90 points before rebounding with a record 35-plus points in a single day. But the up-again, down-again trend returned.

One large factor in the continuing economic unease is just how firmly the

administration will stick to a tough inflation-fighting program, risking a sluggish economy and the ever-present threat of recession.

Alfred E. Kahn, the government's chief inflation fighter, admitted after his appointment that if it came to the crunch, he guessed some people would take inflation over recession.

But the new Congress convening next month may have different ideas.

More than half the candidates running for office pledged to make the fight against inflation a priority goal. Their commitment came in answer to a survey circulated by Shearon Harris, chairman of the board of the National Chamber.

Loud and clear

And the new Congress was elected by a public sending loud and clear signals that it was no longer willing to tolerate inefficiency in government and ever-growing deficit spending.

Nor is it willing to tolerate another recession. Yet Dr. Carlson is not alone in predicting the real possibility of a recession. A long list of prestigious economists and business executives agrees.

Most economists see actual economic growth slowing to anywhere from 2.5 percent to 3.5 percent, though some think it could be as little as two percent.

This means unemployment will probably continue at around the six percent level and may go higher if anti-inflation efforts falter.

"Most would agree that the administration's moves increase the likelihood of a recession," says Dr. Charles F. Hoffman, economist at the American Bankers Association, "but that does not necessarily mean there will be one."

No large jumps

"The whole idea is to raise interest rates and dampen aggregate demand, but to do it in stages. Don't take any large jumps."

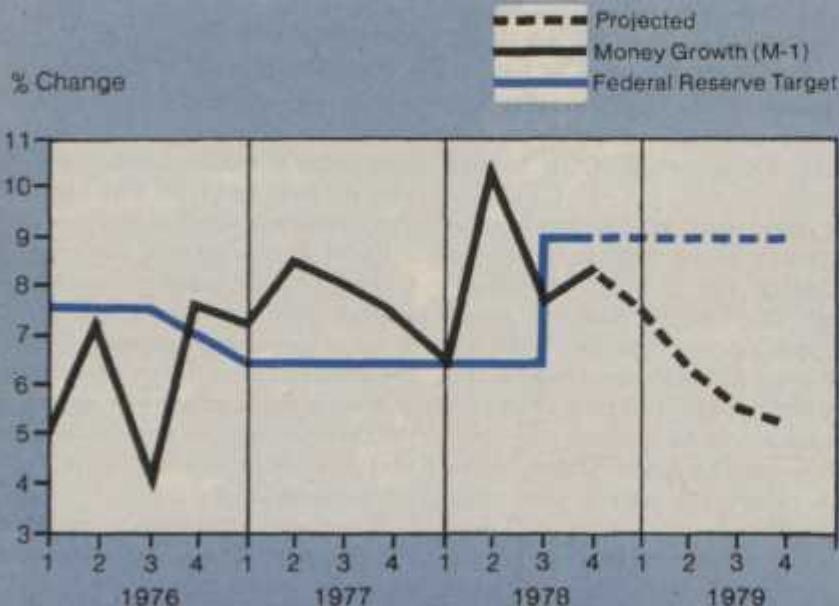
"By doing it in stages, a recession could be headed off, or, at the very worst, could be short and shallow."

To Vondal S. Gravlee, president-elect of the National Association of Home Builders, the stricter money policy means higher interest rates on mortgages, tighter mortgage money, and a slowdown in housing construction.

Forecasts are for 1.7 million new housing starts in 1979, down from almost two million this year.

Mortgage interest rates could possibly hit 11 percent, says Dr. Kenneth

Growth in Money Supply



Source: U.S. Chamber of Commerce Forecast and Survey Center

Thygerson, chief economist of the U. S. League of Savings Associations.

"We in the housing industry recognize the necessity of this painful short-term action," he says.

"The recession would have come anyway," says William J. Fellner, economist at the American Enterprise Institute. "What does matter is that the administration should not try to pump up the economy while we are in the recession."

Degree of disbelief

The National Chamber has promulgated a 16-point program to fight inflation. The main thrust is directed at the government getting its own inflationary spending house in order.

The National Association of Business Economists has also urged the government to establish spending limits, balance the budget in stages, and provide more incentives for business to expand capital investment.

So far, business has shown marked disbelief that the government can do a good job of managing the economy. In the latest business confidence poll of the Gallup Organization and the National Chamber, 72 percent of those responding think the administration will do a poor job in fighting inflation and unemployment. That figure was up from a 55 percent poor rating in the fall of 1977.

Despite the skepticism, everyone agrees that the anti-inflation program is at least a positive sign of action.

Most serious problem

"The National Chamber supports the President's recognition of inflation as the most serious problem facing the nation," says Dr. Carlson.

One big if which could affect the fight against inflation is what happens at the bargaining table when big union contracts come up in 1979.

Organized labor leaders have been critical of the voluntary wage-price guidelines, and George Meany, head of the AFL-CIO, has called for mandatory controls.

"Everybody knows voluntary controls have little chance of working," said one corporate executive during the Business Council meeting in October, "but mandatory controls will surely cause a recession."

How well the economy does in 1979 depends on Congress, the administration, business, labor, and, most of all, the general public. For it is public acceptance of the remedies that will cure inflation in the long run. □



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Energy: Here Today, Gone Tomorrow?

Unless the government unshackles the development of coal and nuclear power, America faces a real fuel crisis in the next decade

By Vernon Louviere

AERICAN HOMES will be warm this winter, the wheels of industry will turn on schedule, and cars and trucks will continue to crisscross the nation as the energy lifeline pulses with the flow of oil, natural gas, coal, and electricity.

The appearance of energy sufficiency, while deceptive, will be ever present. But in the background lurks the specter of grim times if the United States remains on the course it has followed for the past few years.

By every acceptable yardstick, the energy situation in this country is more critical today than it was following the 1973 Arab oil embargo. Despite conservation measures and a new national energy program grudgingly approved by Congress, the outlook five, ten, or 20 years down the road is anything but bright.

The United States is more—not less—dependent on foreign oil than ever before. Gasoline consumption continues to set new records. The search for new supplies of oil and gas is discouraged by restrictive governmental

pricing regulations. The stepped-up use of coal—our most abundant natural energy resource—is thwarted at every turn by environmental concerns. Construction of nuclear power plants nears a standstill. Capital to build vastly expensive electrical generating facilities is in short supply.

Electricity: a critical area

The electrical generating industry is convinced that expanded use of coal and nuclear power is the only effective way to reduce the nation's dependence on natural gas and foreign petroleum for producing electricity. However, the development of coal and nuclear power has been stymied by conflicting and overlapping regulation at all levels of government.

The National Electric Reliability Council says that if endeavors to build new coal-fired and nuclear power plants are not successful, "this nation will face shortages of electric power which initially will cause short-term curtailments of electric power and ultimately will lead to some form of ra-

tioning of electricity, with serious economic consequences. Under such circumstances, recovery would take years."

Dr. Leslie G. Cook, an international consultant on energy science and technology, sees this timetable unfolding:

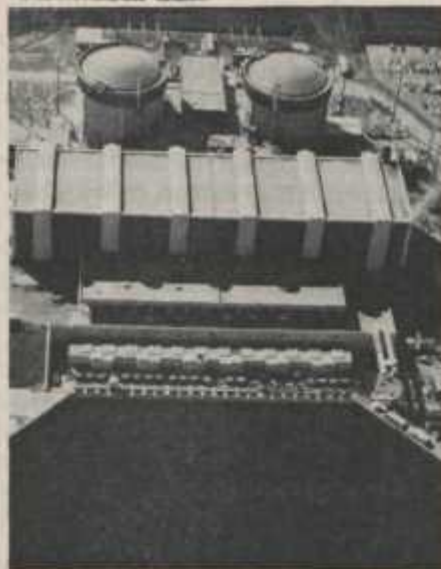
- Electricity brownouts and blackouts beginning in two or three years and becoming steadily worse and more frequent.

- A real oil crisis in the early 1980s that cannot be brushed off as artificial, with world oil prices perhaps doubling.

- A panic call for more nuclear construction when electrical blackouts become common. But by then it will take 15 years to catch up because of the nuclear slowdown in the late 1970s.

Frank N. Ikard, outgoing president of the American Petroleum Institute, says that if another oil embargo occurred tomorrow, "we could be more vulnerable than ever."

A NATION'S BUSINESS survey of private utility executives around the country shows that, in some areas, power curtailments are practically in-



This nuclear plant on the Chesapeake Bay, above, serves Maryland electricity customers. The uranium contained in only one of the tanks at right has the energy equivalence of 80 million barrels of oil or 20 million tons of coal.



evitable a few years from now if coal and nuclear energy do not provide an increasing share of energy needs.

Government, particularly the federal government, holds the key to preventing power shortages and rationing. It takes up to 14 years to build a nuclear plant and up to ten years for a coal-fired plant. A considerable part of this long lead time is devoted to satisfying governmental regulations. Costs multiply in the face of such delays. In Europe, a nuclear plant can be built in half the time and still meet accepted safety standards.

Legislation costly

R. E. Samples, chairman and chief executive officer of Consolidation Coal Co., says 47 percent of deep-mine operating costs and 32 percent of surface-mine operating costs are directly attributable to legislation.

"Much of the legislation and regulation that generates additional costs is unwarranted, unreasonable, and unable to provide commensurate benefits," Mr. Samples told the World Energy Conference recently.

Shearon Harris, chairman of the board of Carolina Power & Light Co. and of the Chamber of Commerce of the United States, says the administration's energy program has two major shortcomings: It does little, if anything, to encourage greater domestic energy production, and it is ambivalent toward nuclear power.

"We cannot afford to ignore the nuclear option. Nuclear power is the most economical alternative known today for the generation of power in countries lacking significant reserves of fossil fuel or sufficient opportunities for the development of hydropower. It is equally essential for countries that need to reduce their reliance on costly petroleum imports."

Today's nuclear power plant, of which 70 are now operating in the U.S., is fueled by uranium. When spent uranium is removed from a reactor it still contains about 40 percent of its original energy potential. This potential can be recovered through reprocessing which extends the life of the resource and reduces the radioactive waste.

Tomorrow's nuclear plant would generate power from a breeder reactor which makes more nuclear fuel than it consumes. But the Carter administration has refused to give the go-ahead for construction of the first commercial-scale breeder reactor.

The administration, which also opposes reprocessing of uranium at existing plants, cites two safety issues: the possibility of a catastrophic reactor accident and the fear of a worldwide proliferation of nuclear weapons.

Mr. Harris and others contend that 20 years' experience with nuclear generation speaks for itself. No member of the general public in the western world has ever been killed because of

an accidental release of radiation at a nuclear power plant.

As for proliferation, any nonnuclear nation seeking plutonium to make weapons does not have to rely on breeder reactors or processing plants.

"I certainly share the President's concern for world safety," Mr. Harris told a European audience recently. "But I do not believe that his means will serve his ends. And I do believe that there are ways to achieve an acceptable degree of safety without denying the world the benefits of a virtually unlimited energy source."

Nuclear power endangered

More and more private utility companies are shelving plans for building coal-fired and nuclear plants because of the huge financial risks involved in meeting uncertain but costly governmental standards.

Last year, John F. O'Leary, head of the then Federal Energy Administration, commented on the cancellation of plans to build 40 to 50 new nuclear plants because of regulatory problems:

"The unfortunate thing is that intervention [by environmentalists and others] has gone to the point where we may well have seen the end of nuclear energy as a live option in this country."

The largest coal generating station ever conceived—the Kaiparowits Project in southern Utah, which was designed to provide electricity to millions

of Pacific Coast customers—was finally scrapped after 13 years of delay. During that period, projected construction costs shot up from \$500 million to \$3.5 billion.

The name Seabrook has become synonymous with nuclear controversy. In 1971, after years of study, Public Service Company of New Hampshire decided to build a 2,300-megawatt nuclear power plant at Seabrook near the state's short section of Atlantic coastline. It would supply three fourths of New Hampshire's electrical needs. Today, after innumerable delays caused by stop-and-go decisions of government and several riotous public demonstrations, Seabrook is only 12 percent completed.

Delays add millions

Originally projected at \$900 million, the project is now estimated to cost \$2.3 billion to complete. Each month of delay adds \$15 million to the cost, and the controversy over building the plant may be far from over. So far, at least \$419 million has been added to the cost of construction. Construction workers have lost an estimated \$132 million in wages.

Over the 30-year economic life of the Seabrook plant, once it is completed, the average residential customer will pay an extra \$1,316 for his electricity because of increased building costs.

Dr. Thomas A. Vanderslice, a senior vice-president of the General Electric Co., says: "One can hardly blame the utilities for hesitating to invest hundreds of millions of dollars in a plant that may be delayed indefinitely or never built at all. Costs attributable to delay—increased price escalation and interest on capital tied up during construction—may now exceed the hardware costs of the nuclear plant."

Voters give support

When the question of nuclear power is put to a vote, it usually wins public support by a landslide. In 1976, for example, seven states permitted voters to decide whether to halt nuclear development. In every case, the proposed moratorium was voted down. The composite vote in the seven states was two to one in favor of nuclear power.

Regulatory roadblocks against coal-fired plants are as formidable as those hampering nuclear development. Although coal will supply about half the nation's electrical needs during the next ten years, President Carter's original goal of increasing coal production to more than one billion tons an-

nually by 1985 has scant chance of being realized.

Vast reserves of low-sulfur western coal, which pollutes less than high-sulfur coal, remain largely untapped. This coal meets the current emission standards of the Environmental Protection Agency, but EPA now wants costly scrubber equipment installed at virtually every new coal-fired plant. A sister agency, the Department of Energy, has called the EPA proposal unnecessary; it removes any incentive to burn low-sulfur coal.

There is a touch of bureaucratic irony involved. Some experts argue that full scrubbing of what is already fairly

clean coal will actually mean dirtier air. Because the cleanup cost is about the same for all types of coal, there will be an incentive to burn the cheapest, dirtiest coal. Also, utilities will be reluctant to invest in new scrubber equipment if they can get by with conventional processing equipment.

Wendell J. Kelley, chairman of the National Electric Reliability Council, says: "While the Department of Energy advocates additional dependence on this most plentiful fuel, other government legislative and administrative agencies make its production and use for electrical generation more difficult."

Packaging the Energy Problem

President Carter's national energy plan—a regulatory nightmare in the opinion of some; a panacea to the energy dilemma according to others—emerged from 18 months of congressional hassling as a package of five separate pieces of legislation. A brief description follows:

The National Energy Conservation Policy Act. Aimed at achieving greater energy efficiency in homes and businesses, it contains special provisions for conservation and the use of solar energy in government buildings as well as mandatory energy efficiency standards for the manufacturers of household appliances.

The Power Plant and Industrial Fuel Use Act. By establishing a policy to expand the use of coal for new electric power plants, Congress expects this act to reduce oil imports.

The Public Utility Regulatory Policies Act. A major feature of the act calls on state regulatory agencies to consider alternative rate structures to force more energy conservation. The Secretary of Energy is empowered to intervene in state regulatory hearings and may participate in any legal appeal of a state's decision.

The Natural Gas Policy Act. The most controversial part of the package, this act changes the method of pricing new domestic natural gas in interstate and intrastate markets. As many as 21 different price categories for natural gas could result.

The Energy Tax Act. Instead of four major new energy taxes proposed by Mr. Carter, the act contains only a scaled-down version of his original gas-guzzler tax. The act also

provides a tax credit for installing household insulation and other energy-saving measures and an additional ten percent investment tax credit for expenditures on new energy technologies.

Reviewing the legislation, Shearon Harris, chairman of the board of the Chamber of Commerce of the United States, says:

"While the national energy plan was flawed from the start and the legislation that was enacted leaves much to be desired, this is nonetheless a small step forward."

Mr. Harris says the most promising development is the act encouraging public utilities and major fuel-burning installations to convert from oil and gas to coal.

The new natural gas pricing policy, he says, "means that higher-cost natural gas will be allocated to consumers who use it as a boiler fuel. These higher costs, combined with mandatory coal conversion strictures, will accelerate the decline in industrial demand for natural gas."

"The exceptions and exemptions built into the program make it unlikely that a significant number of existing units will convert from oil and natural gas to coal," says Mr. Harris. "However, the rules virtually guarantee that new utility and industrial boilers will be capable of burning coal. In the long range, this change will lessen demand for oil and gas while stimulating demand for coal."

Next year, Congress will consider removing price controls on oil in somewhat the same way that controls on natural gas will be phased out.

Mr. Kelley, who is also chairman and president of Illinois Power Co., says he sees nothing in Washington to suggest changes in the official go-slow attitude toward greater use of coal and nuclear resources.

J. D. Selby, president of Consumers Power Co. in Michigan, puts it this way: "My guess is that we'll have to get in more trouble before we can solve our problems."

For Mr. Selby, the trade-off is between the cost and availability of energy and the protection of the environment. "That trade-off," he asserts, "has not been faced by the public or by the administration in Washington. It is just now starting to be faced by the states."

Consumers Power, one of the largest utilities in the country, has two nuclear plants operating and two under construction. The company has no plans to go beyond that at this time. Mr. Selby explains why:

"Our economic studies still show that nuclear is the way to go, but the regulatory risks are too great and construction costs are so uncertain. Until we can come up with a nuclear licensing process that provides for a virtually uncontested construction and



Coal cars at Norfolk, Va., demonstrate the scope of railroads in moving coal to consumers.

operating permit, we are not going to commit ourselves further."

Joseph M. Farley, president of Alabama Power Co., says the area served by his company will be exposed to power brownouts and possibly even blackouts by 1983 or 1984.

"I can see a short-term curtailment of electric power in the near future and further down the road actual rationing of power," he says.

H. A. Barker, president of Public Service of Indiana, Inc., agrees with this prediction of power rationing. "We are all under legal obligation to serve the consumer, but we can't provide power that we don't have," he says.

The outlook in California, a special target of environmentalists, is no less discouraging. California recently passed a law prohibiting construction of new nuclear plants unless a waste disposal and fuel reprocessing system is included in the design. One major nuclear project has already been suspended because of that law.

"We can't meet the standards for coal-fired plants in California, and nuclear is out for the time being," says Robert E. Morris, president of San Diego Gas & Electric Co. "We are going to import power until we can get these roadblocks out of the way."

A new nuclear plant built by the

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The Seabrook Decision: A Case of Yes, No, and Maybe

In February, 1972, Public Service Company of New Hampshire applied to the state for permission to build a nuclear plant on a section of coastal land surrounded by salt marshes near the small town of Seabrook, N. H.

Since then, construction has been dogged by one costly delay after another. Overlapping state and federal regulations, conflicting decisions, and a series of environmental protests have sent costs skyrocketing.

Here are a few significant dates excerpted from a study by The Heritage Foundation, a Washington-based, nonpartisan public policy research group:

March 30, 1973. Public Service submits its application, similar to the one filed with the state, for a construction permit and operating license to the federal Atomic Energy Commission, now the Nuclear Regulatory Commission.

July 9, 1973. AEC docket the application, with a target date of April 24, 1975 for a decision.

June 24, 1975. The Environmental Protection Agency regional admin-

istrator issues the first final determination for a cooling system for the Seabrook plant; in effect, approving the basic design.

Oct. 24, 1975. EPA issues another set of final determinations which, while still approving the cooling system, calls for a new water intake location.

March 23, 1976. An adjudicatory hearing requested by environmentalists protesting approval of the cooling system begins. EPA witnesses testify in favor of the system.

July 7, 1976. NRC issues the Seabrook construction permit.

Nov. 9, 1976. EPA regional administrator reverses himself and revokes his determinations of June 24 and Oct. 24, 1975.

Jan. 21, 1977. The Atomic Siting and Licensing Appeal Board suspends the Seabrook permit and orders new hearings on the possibility of using cooling towers at the site.

Feb. 17, 1977. NRC hears complaints from the New England Coalition Against Nuclear Pollution that seis-

mic standards for Seabrook are inadequate. The last major earthquake to hit that area occurred in 1755 at Cape Anne, 18 miles away.

June 17, 1977. EPA approves cooling system for the third time.

July 26, 1977. NRC issues new construction permit to Seabrook but cautions that another permit suspension could occur.

June 30, 1978. NRC again suspends the Seabrook permit because of continuing environmental concerns.

August 10, 1978. NRC reinstates construction permit when EPA approves the cooling system for a fourth time.

NRC Commissioner Richard Kennedy, who dissented from the June 30, 1978 suspension decision, commented on the licensing procedure:

"This case has been widely depicted as a serious failure of government to resolve central issues in a timely and coordinated way—a paradigm of fragmented and uncoordinated government decision-making on energy matters and of a system strangling itself and the economy in red tape."

Toledo Edison Co. began operating last fall at about the time of the 111-day coal miners' strike. While Ohio industry was one of the principal victims of the strike, Toledo Edison was able to serve its industrial customers without interruption, using the nuclear installation, which provides 25 percent of the company's output.

"But we're looking at tight capacity

in the early 1980s," John P. Williamson, president and chief executive officer of Toledo Edison, says.

Toledo Edison and three other utilities—Cleveland Electric Illuminating Co., Ohio Edison Co., Inc., and Duquesne Light Co.—are pooling their efforts and \$9 billion to build one coal-fired facility and seven nuclear plants. These will start coming on-line in

about 1982 and are expected to help these utilities meet all their customers' needs during the critical 1980s.

In the southern part of Ohio, 95 percent of the electricity sold by Cincinnati Gas & Electric Co. is generated by coal-burning power plants. But the company is looking at nuclear power, too. With Dayton Power and Light Co. and the Columbus & Southern Ohio Electric Co., Cincinnati Gas will draw power from a nuclear plant scheduled to be operating early in 1980.

Laws That Keep Coal in the Ground

There's a whale of a lot of coal in the American earth, but much of it remains unmined because of federal and state regulations. Here are some of the federal laws that must be observed before any coal can be moved from mine to furnace:

National Environmental Policy Act
Clean Air Act and Amendments
Clean Water Act and Amendments
Coal Leasing Act Amendments
Surface Mining Control and Reclamation Act of 1977

Critical and Endangered Species Act

Safe Water Drinking Act of 1974

Federal Water Pollution Control Act Amendments of 1972

Historic Preservation Act
Solid Waste Disposal Act of 1971
Mine Safety and Health Act
Mine Safety and Health Act Amendments of 1977

This list does not include the rules and regulations set down by the Bureau of Land Management, the U. S. Geodetic Survey, the Environmental Protection Agency, the Corps of Engineers, and the Interior Department's new Office of Surface Mining, Reclamation, and Enforcement, which is just now getting down to business.

Plenty of coal

"We are in good, if not better, shape than most areas of the country," says William H. Dickhoner, president and chief executive officer of the Cincinnati firm.

"Certainly, we expect no problems this winter."

Brooke Hartman, president of the Pennsylvania Electric Association, which represents 15 investor-owned utilities, says: "Our problem in Pennsylvania is not a shortage; we have plenty of coal. Our problem is with the regulations that prevent us from using that coal. Until we find out how all these regulations shake down, the utilities have an awfully critical decision

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Impact on Small Business

The Small Business Administration says President Carter's national energy plan is not likely to have an immediate and significant effect on the operation of small businesses.

"Obviously, an energy-dependent industry such as manufacturing will be more affected than a nondependent one such as retailing," says Tony Robinson, an SBA economist.

Since the price of natural gas will now start to go up, those industries with long-term gas contracts will be better off than those contracting for

higher-priced gas in the near future, according to Mr. Robinson.

Initially, at least, he says, the profit margins of most small businesses will not be affected since they will be able to pass along to customers the increased fuel costs.

Of greater concern to small business at this time, Mr. Robinson notes, are economic uncertainties such as the level of government spending, the growth of money supply, capital investment by business, and consumer confidence.

to make about taking care of the future."

The strongest case for nuclear power was made during the 1977-78 coal strike. Nuclear power generated in New England was exported to the South and Midwest, filling a power gap that could not be filled in any other way.

Looked at another way, nuclear energy last year saved the nation the equivalent of 120 million tons of bitu-

minous coal, or 2.6 trillion cubic feet of natural gas, or 425 million barrels of oil. Importation of that much oil would have cost \$5.9 billion.

"When we come to our senses, we can shorten the construction of a nuclear plant from the present 14 years to about five years," says Dr. Cook, who formerly directed Canada's nuclear power program.

"The question is: Can all the nuclear construction companies hang on that

long, keeping their technical teams together and all the rest?"

The final solution to broader use of nuclear energy may be political. Bruce W. Morrison, marketing vice-president for the Westinghouse Power Systems Co., says: "Energy is now more than a technology. It has become a political issue, and it behooves us to do our job in the political arena."

"We need political action to remove the roadblocks placed in the way of those of us who want to develop and use our own energy resources—coal, nuclear, oil, and gas."

"We need political action to stop the imposition of more regulations as called for by the national energy plan."

"We need political action to clean up the mess made by the regulators who have interpreted the National Environmental Protection Act as a one-sided tool to stifle energy growth."

"We need political action to get a commonsense approach to keep the lifeblood of our economy—energy—flowing through our national productive system." □



To order reprints of this article, see page 31.



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Will the Restraints Work, and If They Do, How Well and How Fast?

By Mary L. Tuthill



Alfred E. Kahn, chairman of the Council on Wage and Price Stability, says the President's program "has to work." But he doesn't expect any sudden changes.

THE INITIAL FANFARE accompanying the announcement of wage-and-price guidelines is over, but much of the apprehension over the new economic program remains—and with good reason.

Within a week of the President's announcement, the dollar plunged to record lows throughout the world, and at home U.S. investors were selling stocks in near-panic amounts. Only a massive monetary intervention halted the slide.

The AFL-CIO flatly rejected voluntary controls. AFL-CIO President

George Meany called for a special session of Congress and said the 14-million-member labor federation would push for mandatory controls next year.

Mr. Meany said he is always leery of a carrot-and-stick approach because it is "used on a beast of burden . . . and I've never heard a horse say it approved of the idea."

Business, which abhors mandatory controls, was generally lukewarm to the voluntary program, which calls for a 5.75 percent ceiling on prices and a seven percent cap on wages. Outside of the administration, there were few hot adherents of the program.

No real gains

This was the situation that faced Alfred E. Kahn, President Carter's new chief inflation fighter. When he assumed his duties last month, Mr. Kahn, a 61-year-old economist and former head of the Civil Aeronautics Board, said: "I will not be a party to a graceful transition to mandatory controls."

However, Mr. Kahn says he prefers mandatory controls to a recession. Asked if the new program would work, Mr. Kahn replied: "Will it work? It has to work."

But within the administration there is disagreement over how well the program will work and how fast.

Barry Bosworth, director of the Council on Wage and Price Stability, says that even if the nation cooperates with the voluntary guidelines, workers cannot expect any real wage gains for several years. If all goes well, he says, wages will keep up with inflation, but they will not regain ground lost in the past few years of rising prices.

Food and housing costs will continue to rise sharply in the next few years, he says. Mr. Carter has exempted interest rates—a big part of housing



Treasury Secretary W. Michael Blumenthal says the aim is to get inflation down substantially within the next year; most economists have their own timetables

costs—and food from the price guidelines.

However, Treasury Secretary W. Michael Blumenthal says, "we are trying to get the rate of inflation down substantially within the next year."

And Labor Secretary Ray Marshall expects an improvement in the economy in six to eight months. But almost everyone in the administration remotely connected with the guidelines program admits that this cannot and will not be done.

Meanwhile, many business leaders have expressed doubts that the guide-



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| Secretary | DR. APPT. |
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| SALES | (AFTER NO) |
| BLAKE | OKINS |
| (BUS. AND) | CALL FOR |
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lines will be effective. Shearon Harris, chairman of the board of the Chamber of Commerce of the United States, called the voluntary guidelines the equivalent of placing a straitjacket on the entire private sector.

Dr. Jack Carlson, chief economist of the National Chamber, said that mandatory wage-and-price controls would add to the risk of a recession and increase inflation, not reduce it.

"The AFL-CIO statement calling for mandatory controls on wages, prices, rents, and interest rates is disruptive and will create new uncertainty in the economy," he says.

The type of controls Mr. Meany seeks are similar to those introduced by President Nixon in the early 1970s. By 1974, they had resulted in the worst post-World War II recession, many shortages, and double-digit inflation.

But the venerable Mr. Meany doesn't speak for the entire labor movement.

Frank Fitzsimmons, president of the Teamsters union, indicated it would try to come close to the seven percent wage standard although later he hedged on this.

What the Teamsters do is doubly important to the administration. Even before the imposition of the wage guidelines, which all agree will pretty much stand or fall on what the Teamsters do, Teamster officials were being courted by the administration to hold the line at the bargaining table.

In negotiating the year's first major contract, the Teamsters earlier hinted that they might well settle for a three-year package totaling around 20 percent and including job security and other fringe benefits.

That package would hit President Carter's standard almost on the nose and would set a moderate pattern for the big 1979 settlements involving autos, rubber, electrical equipment, meat packing, farm machinery, and petroleum refining.

While there may be disagreement at home over the guidelines, there seems to be none abroad; almost universally, the plan is considered inadequate. Its announcement caused the value of the dollar to plummet to all-time lows on the international money markets.

Only by taking drastic measures that increased interest rates at home was Mr. Carter able to convince international money men that he would defend the value of the dollar whatever the price to the domestic economy.

Despite the domestic and international alarm, leading economists agree

All You Never Wanted to Know About Wage-Price Guidelines

Need clarification on the wage-price guidelines? The Council on Wage and Price Stability has set up a phone bank run by 26 economists to assist businesses and unions in interpreting the program. The toll-free number is 800-368-9191. In Washington, D. C., the number is 456-6766.

Here are some typical questions and answers:

Does the standard mean a seven percent raise in an individual's take-home pay?

No. The standard applies to gross or pretax earnings, plus the value of private fringe benefits.

What is meant by private fringe benefits?

Private fringe benefits are privately negotiated in collective bargaining or offered voluntarily by an employer. They include pension and health programs, paid vacations and holidays, and special executive bonus payment plans. Public fringe benefits are mandated by the government and include employer payments for social security contributions and unemployment insurance.

Must the profit margin test be applied to the domestic market only or to all operations, domestic and international?

If the firm maintains separate records for domestic operations, the

profit margin test should be restricted to the domestic market.

Will price standards apply to individual products?

The standards apply to company averages, not individual products. However, some product prices are not set by individual companies and will be monitored market-wide.

Must all product lines comply?

Not all product lines are expected to be in compliance. Higher increases for some products must be offset by lower increases for other products, so that a company's average price increase complies with the guidelines. However, the council may investigate situations where individual product prices increase more than ten percent annually.

Does the program apply to imports?

No. Import prices are exempt from the calculation of a company's average price increase if they represent the first sale in the U. S. However, no special treatment will be given for increased costs of domestically-produced goods that result from higher import prices.

Does the program apply to utility rates?

Yes, but the responsibility for regulating utility rates lies with the independent regulatory agencies.

How will the price standards be monitored?

Individual components of the wholesale and consumer price indices will be used. The council will investigate any significant departures from decelerating price increases within an individual industry.

Will the government warn firms that are found out of compliance with the standards?

After the council determines that a company is not complying with the standards, it will notify the company in writing before starting hearings on the nature and extent of noncompliance.

How will the program affect retailers in particular?

If retailers cannot meet the guidelines because wholesale prices have risen rapidly, they will be expected to meet the profit margin standard. However, retailing does present some problems because wholesale costs are such a big part of final prices. The council will consider a program tailored to the special institutional characteristics of retailing.

The program may focus on the spread between wholesale and retail prices rather than on selling prices alone. But it will still maintain the original objectives of the President's wage-and-price guidelines.

that something had to be done to stop or reduce inflation. The wage-price guidelines are aimed at doing this, but will require an unprecedented cooperative effort from government, business, and labor in order to succeed.

In outline, the program would:

- Set the average pay raise at seven percent for any one company, including union and nonunion wages, executive pay, cost-of-living increases, and fringe benefits. For multiyear contracts, the various years' increases would have to average seven percent a year.

Same level of benefits

The seven percent standard also includes any increased cost to the employer of maintaining the same level of benefits. An employer's increased contributions to an insurance plan count as part of the seven-percent limit.

Workers with contracts signed before last Oct. 25 will be exempt from the guidelines. Workers earning less than \$4 an hour will be permitted greater increases. And dividend income will not be counted.

- Set an overall 5.75 percent price guideline. An individual company's price rise would be based on whether the firm had slowed its price increases from the 1976-77 pace in line with improvements in its labor costs.

But the standards require any company whose labor costs decline by more than 0.5 percent from the 1976-77 average to moderate its prices by more than the general guideline.

Allowable yearly rate

Companies are asked to stretch out their allowable price increases, raising prices only half the allowable yearly rate in the first six months of the program.

- Allow workers a tax rebate as wage insurance if the plan doesn't work. If inflation outpaces the seven percent wage limit, workers who agreed to stay within the guidelines would get a tax credit or refund to offset their loss in real income.

- Hold down federal spending and the cost of governmental regulations through a partial freeze on governmental hiring, a cut in programs, and a reduction in efforts to reduce unemployment.

Not covered by the guidelines are farm prices, interest rates, and the prices of industrial raw commodities such as crude oil or copper.

Wage insurance, an important provision to labor, will need the approval of the 96th Congress before it can be im-

Tough Man for a Tough Job

Alfred E. Kahn, President Carter's new chief inflation fighter, faces a lot of tough problems in the days ahead. But his record indicates that he has mastered a lot of tough problems in the past.

During his 16 months as chairman of the Civil Aeronautics Board, he pushed through new rules to deregulate the airline industry.

Before joining the regulatory agency, Mr. Kahn was chairman of the New York State Public Service Commission. During his three years there, he originated time-of-day pricing of electricity, which brought lower utility rates during off-peak hours.

When President Carter asked Mr. Kahn to head his inflation-fighting ef-

fort, the CAB chairman wasn't sure he wanted to move.

"I'm not a price-and-wage fixer," he said. "That doesn't mean that it violates my sense of integrity to see what you can do to affect strategic wage-and-price bargains, but it isn't my forte. I am not an arm-twister. I am not a jawboner."

Mr. Kahn does not see his new job as just administering wage-price guidelines. "That's really not for me," he says. "If, instead, the job is defined as the presidential adviser on inflation, so that it enables me to play an important role in the whole range of governmental programs that inflate costs, that obviously is congenial to me."

plemented. And the budget-busting potential of the proposal has cooled enthusiasm on Capitol Hill for the entire anti-inflation program.

If, however, Congress dilutes the proposed open-ended insurance plan by imposing some dollar maximum, the plan's appeal to the unions could be lost.

"There are problems and complexities with the program," says Rep. Al Ullman (D-Oregon), chairman of the House Ways and Means Committee, which will be the plan's first hurdle in Congress. "There certainly will have to be some adjustment."

Meanwhile, the council is offering help to businesses and unions in figuring out how to apply other portions of the guidelines.

In addition to a booklet, the council has set up a telephone bank manned by 26 economists to answer questions.

Since the President announced the guidelines on Oct. 24, questions from the public have been coming in at the rate of about a thousand a day. Council officials say this suggests an encouraging spirit of intent to comply.

One question the economists expect to get with some frequency concerns the possibility of larger wage increases. If in a particular industry or firm, productivity is rising more rapidly than the 1.75 percent average, shouldn't the workers be allowed a larger pay increase?

The economists' answer to that is: "The wage standard cannot be exceeded on the basis of unusually large pro-

ductivity gains unless the gains are the result of demonstrable improvements in work rules or practices."

Administration officials say they will be strict in demanding positive proof of productivity gains. However, J. Curtis Counts, head of the trucking industry's bargaining group, thinks that productivity is a loophole through which employers and unions can escape the seven percent wage guideline.

"If you really want the means to get around the guidelines," Mr. Counts says, "this is the best I can think of."

It is just such problems of interpretation that Dr. Kahn and the council will have to resolve.

A spokesman for the council staff says: "As the public starts to understand more about the guidelines, the questions we get become more and more technical, and it takes a lot longer to find answers."

Borrowed staff

The council's telephone bank staff already is frequently working 12-hour days, and some are working seven days a week.

The staff, which is housed on the fourth floor of the New Executive Office Building, started with 39 full-time people and eight temporary employees. The council has borrowed 50 staff members from other agencies and expects to borrow another 50 soon. In January, the council will ask Congress for funds to hire 100 people.

And another bureaucracy is created. □



The Georgia Fact Finder

W. Lee Burge, head of Equifax, was born in Atlanta, went to school in Atlanta, and built his company in Atlanta

PEACHTREE is synonymous with Atlanta—there is a Peachtree Street, Road, Avenue, Circle, Boulevard, Way, Walk, Drive, Highway, Lane, Alley, Terrace, Route, Path, Passage, and Passageway.

So it is no surprise that Equifax, Inc., a \$300 million business information firm, can be found on Peachtree Street out in the posh northwest section of Atlanta. W. Lee Burge, Equifax's chief, is one of those unusual men—a native of Atlanta—and where else would a hometown boy have his company?

Lee Burge joined the company 42 years ago when it was known as Retail Credit Co. Those were depression days, when higher education was only a fantasy for almost everybody, and jobs were as scarce as water oaks in the Sahara. Mr. Burge landed a job with Retail Credit, sorting mail six days a week at \$65 a month.

Not exactly Ivy League

The sum, if not king-size, was princely then, and young Burge used the money to go to college at night. It was a tiny, downtown Atlanta college called the University of Georgia Evening School. It was located in the Baptist Tabernacle Sunday School rooms, and it was no challenge to Harvard or Yale.

That little school, which charged \$10 a semester, and W. Lee Burge, now 60 and earning quite a bit more than \$65 a month, have come up together. The school is now Georgia State University, one of the great urban universities in the country.

Mr. Burge has spent the past 11 years running a company with 14 affiliates and divisions across North

America. The company grossed \$276 million last year and is expected to top \$300 million this year.

On his way up through the ranks, Mr. Burge was a branch manager in Greensboro, N. C.; a vice president of credit reporting affiliates in the U. S. and Canada; a division manager in Pittsburgh; a corporate vice president, sales manager, and executive vice president; and is now president, chief executive officer, and chairman of the board.

To keep his business senses well tuned, Mr. Burge is also on the boards of National Services Industries, which is listed on the New York Stock Exchange, and Atlanta's First National Bank.

To sharpen his civic sensibilities, Mr. Burge has contributed countless hours and dollars to the cause of higher education. He served from 1967 to 1974, first as a member, then as chairman, of the board of regents of the University System of Georgia. He says today that this was the hardest work he ever did, even harder than shuffling mail.

During that time, segregationists were castigating the board of regents because, they said, too many blacks were getting into the state universities. And black and white integrationists were unhappy with the regents for not admitting more blacks. All of these problems came down on the regents during a period of skyrocketing enrollment and costs.

Is Mr. Burge now satisfied with education in Georgia? No. "The need for adequate education is even greater now than it used to be," he says. "Also, we must have more and better continuing education in our professions and in our business lives."

"With the end of mandatory retirement at age 65, a lot of older people are going to go back to school. A lot of people will be changing their careers as they become older and need to retread and supplement their education."

Man of many interests

Lee Burge is a believer in the intellectual therapy of going to school and holding down a job at the same time. He is also a believer in family life, Equifax, Georgia State University, Atlanta, the South, the Second Ponce de Leon Baptist Church, and the Sunday school class which he teaches, in somewhat that order.

In an interview with a *NATION'S BUSINESS* editor, Lee Burge tells about his company and himself.

Equifax is a strange name. What does it mean?

It is a coined word. The root is facts, which we modernized as fax. The prefix, equi, means equitability or fairness in the gathering and presentation of facts.

Walter Lippmann once wrote that the purpose of the communicator is to present facts in such a way that readers and listeners can make fair and intelligent decisions. Mr. Lippmann was referring to facts in the context of news. We apply this to business information.

You took a big chance in 1976 dropping the name Retail Credit Co., which was well-known in the business world.

I suppose a company always takes a chance changing its name. But our change came off very well. We had branched out and had to change. Re-



W. Lee Burge and Louise Adams, a management supervisor, check a few of the millions and millions of facts that Equifax amasses every year through its 1,800 offices that span North America.

tail Credit was an old-line organization nearly 80 years old.

Gathering information for retail credit still comprises about 20 percent of our work. Other services now include reports for insurance underwriting, claims, and adjusting; employment information; market research; commercial printing; and health screening and administrative services for medical and dental practices.

We have 14 wholly-owned affiliates and divisions and 13,000 employees. We work out of 1,800 offices in Canada, Mexico, the Caribbean, and the U.S. Everyone's objective is to gather information that is pertinent, important, as accurate as we can get it, relevant, and decisive to the business process.

Who are your customers?

We have 62,000, including practically all leading insurance companies, credit grantors of all sorts, mortgage lenders, national marketers, consumer product companies, and lots of others.

One of our customers is the government. We work for several agencies and departments such as the Veterans Administration, for whom we provide mortgage loan reporting services.

We even have a photo service. Our people take photos of property, showing condition and size.

Do you anticipate more diversification?

Yes. We will diversify further into related fields in the general information industry as it affects business. This is where we have expertise.

We will have considerable internal growth as well.

Equifax, like thousands of other companies, has had its troubles with regulatory agencies in Washington. What is your situation?

We are engaged in two separate controversies with the Federal Trade Commission, both of which have been drawn out over several years. In early 1973, the FTC filed a complaint against us alleging that certain acquisitions of credit bureau operations were unlawful. About a year later, the FTC issued another complaint alleging that we had violated the Fair Credit Reporting Act and the Federal Trade Commission Act in our consumer reporting activity.

In both cases, the initial decision of the administrative law judge found certain violations. Both matters are now under appeal.

We were also involved, voluntarily, with the former President's Privacy Protection Study Commission, which was set up to determine the need for

privacy legislation aimed at local governments and the private sector. We have appeared before various congressional committees to explain our business. We feel we have a duty to promote fair information practices, while avoiding unnecessary legislative and regulatory restrictions.

What advice would you give other executives taking heat from Washington?

Maintain equanimity and try to analyze objectively what the real problems are. Do not respond immediately—or defensively—to what the bureaucrats and politicians say. In other words, hold your fire.

When you have identified the real problems and all your information is in hand, then present your answers and explanations. Regulations and legislation—if proposed or indicated—should be geared to the real world. Try to get workable, realistic arrangements that will solve problems instead of just satisfying the politicians, bureaucrats, and employees of the regulatory agencies.

Can you give an example of holding your fire?

A couple of years ago, Sen. William Proxmire proposed some amendments to "strengthen" the Fair Credit Reporting Act. I have no doubt that the good senator believed these were needed. But he based his belief partly on a claim by the Federal Trade Commission that 20,000 consumer complaints had been received since the act went into effect in 1971.

We kept calm, did our homework, and put together our information. Then we fired away.

We established that 12,620 contacts—not 20,000 complaints—were involved. Of those, 11,181 were telephone calls whose exact nature was not indicated. Apparently, most were simple requests for information.

This got the original 20,000 down to 1,439. After thorough investigation, it was determined that only 682 were bona fide complaints; 191 of these were directed against credit grantors and not against consumer reporting agencies such as Equifax.

So, under the cold light of scrutiny, 20,000 shrank to a few hundred. Of the bona fide complaints, 90 were against Equifax. Since 1971, the company had completed more than 80 million individual reports. Ninety complaints out of 80 million reports is a good record.

What happens when an individual calls Equifax to find out what is in your file?

We tell the caller what we have on him once we have established his identity. An overwhelming percentage of requests comes over the telephone. The law does not require us to respond by phone. Routinely, we do anyway.

Depending on the type, our information may be computerized or in ordinary files. In either case, we let the people who are interested come in and look at what we have on them.

Does this happen often?

Equifax turns out about 25 million reports a year. Perhaps 250,000 of them will be the basis of a call. This does not mean that 250,000 reports are in error. Practically every time, the caller only wants to make sure that some fact we have is accurate. Most calls involve consumer credit of one sort or another.

How long does it take to process a real complaint?

Two to four days.

Can Equifax live with the growing federal regulation in this field?

Yes. We think the present process achieves what the Fair Credit Reporting Act set out to do. We like the open avenues of communication that let a person or a firm know what there is on file and what adverse information—if any—has been reported regarding him or it. If our information is incorrect, we correct it immediately.

We believe there should be a free flow of truthful information, with proper safeguards for confidentiality and sensitive collection methods to ensure that only pertinent, accurate information is on file.

How do Americans rate as credit risks?

Very high. The vast majority of Americans pay bills within agreed-upon times, and, despite liberal credit terms, they discipline themselves not to overbuy.

Americans, on the whole, are remarkably honest. If this were not true, we could not maintain our consumer credit system.

What percentage of Americans

should be classified as bad credit risks?

This varies by types of credit. With department store accounts, mortgage loans, and other fairly regularized transactions possibly one percent or less of the total is charged off as bad credit.

In more speculative transactions—and I think that this category could include credit cards—delinquencies run higher but are still probably less than three percent.

When you get an overexpansion of credit in an urban area which is suffering from a financial recession because, for example, a local plant closed, naturally you will have more payment problems.

Incidentally, the percentage of non-payment of student loans has been higher than in any of these categories.

Equifax reports on businesses, too?

We look into businesses only on request and only to determine the liability of a business or business person.

Society is becoming more complex, of course, but the percentage of business people who get themselves into



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financial difficulties remains about the same.

Do you believe that public regard for business is improving?

I do. Business now recognizes the necessity for explaining its various situations and problems. Consumers realize that pat solutions are rare and business is complex. People are beginning to understand that government cannot solve all of society's problems. People are finding that solutions usually come easier when they are dealing with the private sector than when dealing with the government sector.

More people know that if we are to create jobs for youth, promote minorities and women into higher-ranked jobs, and decrease unemployment, private business will have to make the bulk of the effort.

People realize now that government does not make money, it only spends it.

Equifax is big in Canada. Are you worried that the province of Quebec will become a separate nation?

We think this difficult period will end and Canada will remain unified. We have more business per capita in Canada than we do in the U.S., and we have faith that Canada has excellent long-term growth potential, probably greater long-term than short-term.

Our Canadian headquarters is in Toronto, but we maintain offices in Quebec and are set up so that we can respond to Quebec's demands that French be the predominant language. We can supply business information in either French or English; in fact, we have a bilingual computer.

Our people in Quebec are largely of French extraction. They have a high level of management expertise. As for Canada, it is a fine place to do business. We have no intention of leaving Quebec.

Equifax is strong on continuing education for employees?

We certainly are. We pioneered this among national companies. Our founders established a company library three generations ago and provided all sorts of aids for employees to obtain education.

Our library here in Atlanta is quite large, and we make all sorts of books and texts—business and general—available free to our employees all over North America. We have employees taking extensive reading courses, and we mail whatever books they need to them.

Financially, this gets rather expensive. Books are costly these days. But, we believe in the value of encouraging education as much as ever.

Has all your civic and charitable work been worthwhile?

In retrospect, one or two projects were not all that worthwhile. But on the whole, yes. A company has a duty to improve the cities it operates in, and we have tried to do that. We have succeeded practically everywhere. This, of course, helps the company, the city, and the city's people.

Do you find it difficult to run a national company from Atlanta rather than from New York or another major city?

On the contrary. If Equifax had moved to Chicago, New York, or wherever in the past, we would be moving back to Atlanta now.

Atlanta has superb transportation, the weather is great, good young candidates for management positions flock here, and we have more than a dozen colleges and universities and plenty of cultural and sports facilities.

Where do you vacation?

Sea Island down on the Georgia coast is my favorite spot. My wife and I get there for a couple of weeks every year. We also try to go abroad each year. I'm an ancient history buff, and we pick different spots—Greece, Israel, Egypt, other parts of the Arab world, occasionally South America. Next, we plan to go to the Orient.

One further question. How is Atlanta as a sports town?

Oh, we're improving. Not many people notice, but we are.

We got into the pro basketball playoffs this year. That's better than last place. We got to the pro hockey league playoffs, too. And Leeman Bennett was named coach of the year in the National Football League for his work with the Falcons.

I was president of the Atlanta Chamber of Commerce when we brought the Braves here from Milwaukee and when we organized the Falcons. So, I'm a little touchy on the subject of our sports.

By no means is Atlanta "losersville." Not even in professional sports. Even the Braves will start winning next year.

I hope.



To order reprints of this article, see page 31.

BRAZIL

BUSINESS GUIDE



SPECIAL ADVERTISING SECTION

INTRODUCTION

Marcus Vinicius Pratini de Moraes:

Some of the greatest joint undertakings by Brazilians and Americans have been in the area of business. With current readjustments in the world economy and the continuous growth and development of Brazil in recent years, the opportunities for a more profound business partnership between our two countries have become greater. To foster that partnership, and to stimulate debate and communication regarding our mutual business opportunities and problems, the Brazil-U.S. Business Council was created in Washington in 1976.

Made up of business leaders from Brazilian and American private sectors, the business council meets annually in a plenary session, alternating between a location in Brazil and one in the United States. The executive committees of the two national sections provide direct and continuous channels of communication between representatives of our respective private sectors. Through the assistance of the executive committees, businessmen from both sections have been able to meet with government leaders of Brazil and the United States and debate those issues which currently affect our mutual business endeavors.

I am especially encouraged with the initiative of our private sectors in forming the Brazil-U.S. Business Council at a time when



Marcus Vinicius Pratini de Moraes, Chairman of the Peixoto de Castro Group and President of the Foreign Trade Foundation in Rio de Janeiro

Mutual concerns of the private sector are hotly debated at Brazil-U.S. Business Council meetings. Above, members discuss technology transfer and consequences of the U.S. Trade Act.

government policies and measures seem to work to make our joint business activities more difficult. Restrictions imposed by the Brazilian government on imports and the protectionist overtones to the trade act are examples of government measures which threaten the healthy development of trade between the two countries. If the climate for trade is less favorable, investment interest will also diminish, as will the possibility of technology transfer.

The Americans are aware of the deficit which Brazil bears in the balance of trade between the two nations and, certainly, are sensitive to the role of expanding exports in Brazil's development. So I am confident that they will react against measures which threaten our business relations and will give Brazil an increased access to the American market. At the same time, we must strive to maintain an investment climate in Brazil conducive to development and expansion of activities for both our private sectors.

Our two nations appear destined to be business partners in trade, investment and development. It is especially fortunate to have the opportunity of bringing to the readers of NATION'S BUSINESS some basic information about Brazil today and the course of its growth. It is through this kind of communication, and through a continued debate and exchange of ideas between our private sectors and with government leaders, that we will achieve common objectives and strengthen our economic relations.



Our Monday, Tuesday,
Wednesday, Thursday, Friday
and Saturday, Duratex S.A.

plants millions of eucalyptus trees for making hardboard, which the whole world knows, respects and prefers.

(Duratex is the world's biggest exporter of hardboard and its second-largest producer.)

It casts more bronze than anyone else in Latin America for the manufacture of faucets, gate valves and globe valves, which are

leaders in both quality and market

business

share. The company molds and fires the finest blends of clay for making vitreous china fixtures which adorns the best bathrooms. It produces wheat flour for baking daily into bread and for making cakes and pasta dishes in the second half of the week.

week.

The company mixes cereals, seeds, oil seed meal and additives for enriching animal feeds

for consumption by poultry and livestock, which are in themselves food for all manner of men.

And on the seventh day, God forgive us, we don't manage to rest either, as Brasil never seems to stop working.

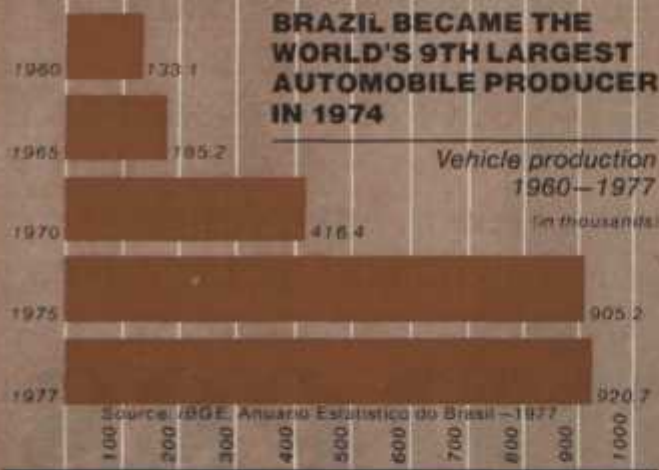
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FACTS

BRAZIL BECAME THE WORLD'S 9TH LARGEST AUTOMOBILE PRODUCER IN 1974



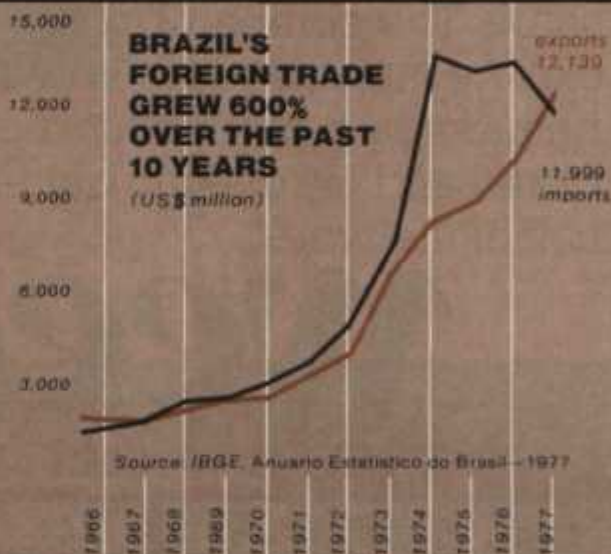
BRAZIL HAS MORE CATTLE THAN ANY WESTERN COUNTRY EXCEPT THE UNITED STATES.



BRAZIL'S RIVER SYSTEM IS ONE OF THE WORLD'S GREATEST SOURCES OF ELECTRIC POWER



BRAZIL'S FOREIGN TRADE GREW 600% OVER THE PAST 10 YEARS



INDUSTRIAL SECTOR PRODUCT GREW 221% FROM 1963-1977

Percentage of internal revenue by economic sector.

Source: Conjuntura Econômica July, 1977.



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UNIBANCO

The Brazilian JOINT VENTURES

An Imaginative Blend of Foreign, Brazilian Private And Brazilian Government Interests

Brazil's remarkable economic growth has come about through a mix of foreign private investment, local private investment, and government participation in areas of high national priority. The recognition of both the contributions and the limitations of those three sources of capital has brought about the emergence and development of the Brazilian joint venture—a business method frequently found to be the most attractive and convenient vehicle for carrying out an enterprise in Brazil.

The Brazilian Joint Venture

A Brazilian joint venture is nowhere defined in law. Nor does it fit, in most cases, the strict definition of a joint venture as a project undertaken by two or more participants for limited time and for limited objectives.

"A Brazilian joint venture, in practice, consists of a business operation carried out in Brazil through a company formed under Brazilian law," points out William B. Meissner, an American lawyer living in Brazil and director of Brazil Marketing International.

"The parties carrying out the operation are limited in number and generally include at least one foreign private investor and one national private investor. In many cases, the Brazilian government may participate as well. It is literally adaptable to any sector of the economy," he said.

Certain Examples

Brasilton Hotels e Turismo S.A. is a Brazilian joint venture carried out by *Sisal S.A.*—*Imobiliária Santo Afonso*, a Brazilian construction firm, and Hilton International, Inc. *Brasilton* engages in the business of hotel development in Brazil. Hilton's interest is in managing a modern hotel chain in Brazil and it draws upon its broad international experience to assure effective management and a profitable operation. *Sisal*, on the other hand, is interested in construction. Its successful background in hotel and residential construction in Brazil assures the venture of structures and units of uniformly high quality, using Brazilian construction materials and methods.

"We have the best of both worlds," says Jose Menendez, Hilton's vice president for South America residing in Brazil and director of *Brasilton*. "We are not in the construction business, and we are not Brazilian. But we do know hotel management like few companies in the world. Our association with *Sisal* gave us both the chance to expand our own activities while counting on each other for needed specialization and expertise."

"For *Sisal*, the joint venture has proven to be the best way to develop a hotel industry in Brazil," explains Wilbur Vicoso Hockensmith, vice president of *Sisal*. "Both partners are actively interested in the successful development of new hotel projects, and we both acknowledge that we have to run the company by consensus. And once we accept the joint venture route, it is always easier to admit another partner or partners if the moment is right," he continued.

The government does not participate in the *Brasilton* joint venture, although it could if the partners so desired and if the government tourism bureau or one of the venture capital subsidiaries of the National Bank for Economic Development (BNDE)



IFC helped fund Capuava — Carbonos Industriais S.A. — a carbon black joint venture carried out by Cabot Corp. of Boston, Unipar, and the Carvalho Group of Rio de Janeiro.

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Poliolefinas S.A. - Indústria e Comércio
EBT - Empresa Brasileira de Tetrâmero S.A.
Brasivil - Resinas Vinílicas S.A.
Copamo - Consórcio Paulista de Monômero S.A.
Capuava - Carbonos Industriais S.A.
Goyana S.A. - Indústrias Brasileiras de Matérias Plásticas
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Transportes de Produtos Químicos S.A. - Transquímica
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UNIPAR

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“By encouraging joint ventures, Brazilian states attract foreign and local capital for regional development.”

In a tripartite joint venture each partner benefits.



were interested. In the petrochemical sector, however, the government participates as a matter of course in the first plants.

An example of one such joint venture is *PPH—Companhia Industrial de Polipropileno*. *PPH* is a Brazilian company based in Porto Alegre and developing the \$88 million polypropylene project for the Third Petrochemical Pole in Rio Grande do Sul state. *Petropar—Participações e Empreendimentos Petroquímicos Ltda.*, a Brazilian private company, holds 40 percent of the capital, all of which is divided into voting stock. Hercules, Inc. of Wilmington, Del., holds another 40 percent, and *Petrobras Química S.A.—Petroquisa* holds 20 percent. *Petroquisa* is a subsidiary of *Petrobras*, Brazil's state-controlled petroleum company. Through *Petroquisa*, the Brazilian government not only takes equity positions in petrochemical joint ventures but also contributes to planning and management of those companies.

"*PPH* provides a happy convergence of interests on the part of foreign private, Brazilian private, and Brazilian government entities," says Walter Rowland, international counsel of Hercules and one of

Hercules' designated directors on *PPH*'s management.

"We feel confident that *PPH* will have government support in a high priority sector of the economy because the government is our partner. On the other hand, because Hercules has a 40 percent share in *PPH*, the Brazilians feel confident that we will be especially diligent in transferring technology and making the enterprise successful." In addition to *PPH*, Hercules participates in joint ventures with the *Matarazzo* group, the *Ultra* group and *Cia. Souza Cruz*.

Minas Gerais, a state in the interior of Brazil, has used the Brazilian joint venture as a means of promoting regional industrial development. The state of *Minas Gerais* actively promotes foreign business interest in its economic development through *INDI—Instituto de Desenvolvimento Industrial de Minas Gerais*, and *Banco de Desenvolvimento de Minas Gerais*, the state agencies in charge of industrial development.

Minas Gerais promotion of new business undertakings through joint ventures has been successful.

"State authorities in charge of promoting

industrial development analyze the composition of a joint venture in terms of the company itself and the immediate effects on the state's policies and development," says Adolfo Neves Martins da Costa, president of *Fiat Automoveis S.A.*, a joint venture located in *Minas Gerais* undertaken by the state government and Fiat of Italy. "But we have found in the Fiat project that a joint venture with a foreign group must be viewed in much broader terms, especially if the joint venture expects to engage in exporting. The foreign partner can be highly effective outside Brazil as well. In entering into a joint venture, the Brazilian partner must not only realize this but must work out with the foreign partner an effective way to permit the active participation of both parties in every aspect of the business, whether in Brazil or abroad," adds Martins da Costa.

Advantages to a Joint Venture

Many business relationships between foreign and Brazilian groups have evolved into joint ventures as a natural consequence of market growth and working compatibility. In recent years, customary intermediate steps in a business relationship have often been bypassed, causing the interested parties to embark upon a Brazilian joint venture right from the start.

Meissner points out: "For foreign companies, the traditional ways of reaching the expanding Brazilian market through exports or licensing arrangements have become increasingly difficult in many areas, often making the direct investment route a prudent if not necessary choice. A foreign company may, in almost all areas of the economy, choose to make its direct investment in the form of a wholly-owned subsidiary in Brazil. However, as the Brazilian economy has grown and the government and Brazilian private sectors have taken an increasing role in industrial development, the joint venture has become more and more attractive to foreign companies."

Among the principal advantages to a foreign private enterprise in carrying out its business operations through a Brazilian joint venture are: 1, Facilitating start-up and operations by virtue of a local partner, 2, spreading the risk, 3, qualifying for low-cost government funds and other incentives depending on sector and levels of participation, and 4, qualifying the local company for government contracts and projects.

For Brazilian private investors, the joint venture form offers the following advantages: 1, Capital funding from the foreign partner, 2, assurance that the technology will be transferred and applied as efficiently

from the desk
of the President:

- a) Is there a market for our product in Brazil?
- b) Can we reach it through exports?
- c) Who else is in Brazil?
- d) Is it worthwhile to license?
- e) Can we make a direct investment?
- f) Should we pursue a joint venture?

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To achieve that end, we render services designed to eliminate costs and inefficiencies which all too frequently make international transactions cumbersome or impossible.

For a foreign company trying to evaluate where Brazil fits into its business plans, we provide objective information on the Brazilian market, direct lines of communication with interested local parties, and local assistance in carrying out the cross-border business operation.

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“In a Brazilian joint venture, small and medium sized companies can participate in large-scale enterprises.”

and profitably as possible, 3, opening markets abroad for the joint venture's products, and 4, increased goodwill and prestige on an international level for the Brazilian private investor.

"There is no doubt that our successful associations with first rate foreign companies have given our company a credibility abroad with foreign banks and with other foreign groups interested in investing in Brazil," says Adolpho de Albuquerque Mayer, executive vice president of *Unipar—União de Industrias Petroquímicas S.A.*

"The importance of foreign exposure cannot be minimized," he adds. *Unipar*, a private Brazilian-controlled holding company, has joint ventures in Brazil with, among others, Cabot Corp. of Boston, Diamond Shamrock of Cleveland and National Distillers of New York.

An additional advantage for Brazilian private capital in joint venture investments is diversification. *Unipar*, for example, participates in eleven different joint ventures. Although most of those operations are in the petrochemical field, *Unipar* recently acquired a 37.5 percent participation in *Cirpress—Circuitos Impressos S.A.*, a Brazilian company engaged in manufacturing printed circuits and other electronic components.

The *Monteiro Aranha* group—a private Brazilian investment group—has investments in 46 Brazilian companies and actively participates in the management of 21 of them. Customarily, the *Monteiro Aranha* group takes a 20 to 25 percent minority position in the equity, assuring itself of a role in running the company because of its recognized management experience in Brazil and through agreements with the other shareholders.

Through joint venture investments, the *Monteiro Aranha* group has achieved a remarkable diversification. It holds 20 percent of the capital of Volkswagen's Brazilian operations—the remainder being held by Volkswagen of Germany. With its 20-80 joint venture with Monroe Autoequipment Co. of Monroe, Mich., it produces shock absorbers in Brazil. In a 25-75 joint venture with Gilbert and Barker Manufacturing Co. of Greensboro, N.C., it manufactures equipment for gasoline stations. And with Owens-Illinois of Toledo, Ohio, the *Monteiro Aranha* group operates one of the largest glass manufacturers in Brazil—so large that it constitutes the biggest subsidiary of Owens-Illinois outside the United States.

"By taking minority positions in joint ventures," explains Olavo Monteiro de Carvalho, president of the group, "we have achieved a broad diversification and remained flexible to respond to market opportunities arising in Brazil all the time. Because of the broad range of our commit-

ments, we feel we know Brazil about as well as any group. Consequently, our majority partners from abroad look to us for administrative support and for an active role in policy making and strategic planning."

For the government, the joint venture frequently permits it to implement a number of policies without controlling or, in many cases, even participating, in the enterprise. Most notably, it permits the government to: 1, Monitor and participate in the development of certain sectors of the economy, especially in the field of petrochemicals and mining, 2, promote and support the participation of private Brazilian capital in large business undertakings, 3, promote the exercise and development of management skills in the Brazilian private sector, and 4, assure the transfer of technology to Brazilians.

Depending on the joint venture and the sector of the economy in which it operates, the government may participate passively in non-voting capital, indirectly by conditioning low cost funding or other benefits on management control being effectively in the hands of Brazilians, or, in special cases, actively in management and capital.

"We want the Brazilian private sector to feel it can participate in large projects which traditionally have been left to the government and to the multi-nationals," says Roberto de Lima Netto, director of the BNDE and director superintendent of *Embraméc—Mecânica Brasileira S.A.*, a wholly owned subsidiary of BNDE promoting the development of the Brazilian capital goods industry. "Through BNDE's programs of capitalization for private Brazilian groups, we give direct financial support to Brazilians who otherwise would not be in a position to accompany capital calls as their joint venture grows. In addition, through *Fibase*, *Embraméc*, and *Ibrasa*," we take equity positions both to provide capital and to characterize the joint venture as national, thereby qualifying the joint venture for BNDE funds," he adds. * Investment company subsidiaries of BNDE.

Limitations

The Brazilian joint venture is not right for all undertakings in Brazil, and there are cases where attempts at joint ventures have failed. The failures are generally due to misunderstandings arising from differences in Brazilian and foreign business practices, incompatibility in terms of objectives, limited rather than total involvement on the part of one of the partners, or lack of definition at the outset as to precisely what is expected from each party. In many cases, however, the joint venture may not be the proper route for one or all parties involved.

For the large Brazilian private companies,

the advantages listed above may not exist. In many cases, a large Brazilian company may have the capital, management, and technical skills to carry out a project itself, with perhaps nothing more from the foreign company than a license agreement.

"Villares has joint ventures in Brazil with a number of foreign companies," says Paulo Villares, president of *Villares*, a large Brazilian group employing more than 15,000 people with activities basically in the steel and capital goods sector.

"But the joint venture route may not be most beneficial to us.

"In each case, we have to analyze what we need from a foreign company and whether we can get it better through know-how agreements alone or through a partnership in a joint venture," he explains.

A foreign enterprise may find the advantages of a joint venture outweighed by the desire to have the benefit of the entire return on capital, in which case it would choose the wholly-owned subsidiary form. Intra-company policies and practices in other parts of the world may also dictate a foreign company's choice as to the form it will use to reach the Brazilian market.

Conclusion

With Brazil's recent strides in economic development, the need to balance the interests and limitations which characterize the Brazilian government, the Brazilian private sector and foreign enterprise has brought about the emergence of the Brazilian joint venture. The Brazilian joint venture is marked by its flexibility and its wide acceptance on the part of government, local private and foreign private entities alike. The Brazilian adaptation of the joint venture to a developing economy market by the encouragement of private initiative and a defined role for the government has been unique and successful to date and should continue to evolve in the future.

The Brazilian joint venture may serve as a model to other developing economies attempting to balance the same interests and direct them on the most effective course for economic growth and development in consonance with government policies. On its home ground, it is rapidly being recognized as the business vehicle for some of the most imaginative projects.

Almost as if the coming of age of the Brazilian joint venture needed a toast, the *Monteiro Aranha* group in 1974 formed a joint venture of one-third interest each with *Moët Hennesy* of France and *Cinzano* of Italy to produce a quality champagne in Brazil. Nobody would be surprised if *Monteiro Aranha's* joint venture with Owens-Illinois began to manufacture champagne glasses.

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Burroughs Wellcome President Fred Coe (right) and Comptroller and Treasurer Ted Haigler (left) meet regularly with Citibank Vice President Richard Dickson, who has worked closely with the account for ten years.

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TRADE

Brazil's Foreign Trade to Surpass \$44 Billion By 1985

Brazil's total foreign trade should reach \$44 billion by 1985 as compared with \$25 billion in 1977. This trade volume will place Brazil among the world's principal trading nations. By reaching consumers around the world, Brazilian products will become important items in the trading necessities of many countries. As a direct result, these countries also will benefit from Brazil's added capacity to import goods and services which its economy cannot produce advantageously.

Brazil's projected growth in foreign trade is not exaggerated when compared to past achievement. From 1970 to 1977 exports rose from \$4.3 billion to \$12.4 billion. Much of this impressive growth took place during years which were poor in terms of world trade expansion.

Brazil: A New Alternative

Brazil is quickly becoming a new alternative for consumers abroad who seek high quality products at reasonable prices. The range of manufactured goods exported widens each year. Footwear and leather goods, textiles, furniture, home products, processed foods, orange juice, soluble coffee, and soy bean oil have already become important items for consumer markets in the United States, Europe, Japan and Latin America. Recently Brazil has become a successful supplier of industrial machinery and equipment, automobiles and trucks, construction equipment, machine tools, office equipment, computers and aircraft. In September, 1978 the Brazilian-made **Bandeirante** passenger-cargo airplane received its first U.S. order after being granted certification by the FAA.

Increased Technical Sophistication

Such examples are living proof that Brazilian products can compete in world markets even in the case of those products where highly technical capacity is required. **Romi**, a long-established Brazilian machine tool maker, has been successful in supplying its lathes to many industrialized countries, including a highly innovative roll turning lathe sold to a big U.S. steel producer.

Foreign trade plays a very important role in helping Brazil to develop its economy. This is why succeeding Brazilian governments have given exports a high priority and have developed a wide range of instruments designed to promote ex-



Products representing close to one-third of Brazil's annual export earnings pass through the port of Santos in São Paulo state.

ports. However, Brazil is not an export-led economy, as is the case of many other leading economies in international trade. Exports represent only about seven percent of total GNP, which is very similar to U.S. performance. The most important market for Brazilian products is its own domestic market. Even with the growth in trade foreseen for 1985, this picture should not change substantially since the Brazilian economy should also maintain its present eight to nine percent growth in the period.

Brazil's Internal Market

It is the size of the Brazilian market that makes Brazil a first rate alternative for foreign investments. Today's population is around 112 million and should reach 200 million by the year 2000. Moreover, 54 percent of the population is under 20 years of age and only 20 percent are over 40 years of age. This concentration in younger age brackets makes Brazil unique. Every year 1.5 million new workers reach the labor market. Providing jobs for these people is a top national priority and means that new investments must be realized. In turn, the young generations reaching the labor market are much better educated and qualified as compared to 15 years ago. This means that ever increasing numbers of young people will become active in the economy, not only as producers of goods and services, but also as consumers.

PRINCIPAL PRODUCTS EXPORTED TO THE UNITED STATES—1977

| PRODUCT | VALUE IN \$1,000 FOB | PERCENTAGE |
|---|----------------------|----------------|
| Coffee beans | 466,517 | 22.01% |
| Cocoa and by-products | 245,988 | 11.60% |
| Soluble coffee | 195,284 | 9.21% |
| Sugar | 126,584 | 5.97% |
| Footwear | 117,706 | 5.55% |
| Radiodiffusion receiving equipment for vehicles | 87,073 | 4.11% |
| Canned beef | 47,047 | 2.22% |
| Orange juice concentrate | 44,622 | 2.10% |
| Iron ore | 37,130 | 1.75% |
| Castor oil | 32,389 | 1.53% |
| Cocoa butter | 32,160 | 1.52% |
| Tobacco leaves | 29,473 | 1.39% |
| Lobsters | 27,881 | 1.32% |
| Other | 630,006 | 29.72% |
| Total | 2,119,860 | 100.00% |

Source: Association of Brazilian Exporters

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to share
in Brazil's growth,
then talk
to the bank
which knows
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banespa

“Continued growth of Brazilian trade calls for closer relations between small and medium sized companies in Brazil and abroad.”

Needed Investment

The requirements of the Brazilian economy are staggering and so are the opportunities. If Brazil were to reach Italy's level of per capita steel consumption by the year 2000, an investment of \$60 billion in added steel producing facilities would be required at current costs. Requirements of this magnitude are present in most other fields such as petrochemicals, non-ferrous metals, fertilizers, transportation, and construction.

It is evident that Brazil will not be self-sustaining in all of its needs. A good part of the goods and services needed to build the economy will come from abroad. However, the country will be in position to supply other countries with increasing volumes of those goods and services where conditions make it good business for their economies.

Brazil needs to export because it needs to import. Every job opportunity created in Brazil by an export dollar is counterbalanced by jobs abroad created by additional imports which are essential to the country's growth.



Brazil looks to increased trade and investment as a source for job opportunities for its young population.

Trade and Development

Brazil relies on expanded foreign trade to continue its economic growth. With a growing international trade, Brazil will be able to carry out its development programs to the fullest extent.

Laerte Setubal Filho, president of the Association of Brazilian Exports, says, "Brazil is, and during the 1980's will continue to be, one of the few viable options for investment still remaining in the capitalist world, and can serve as an example to other na-

tions that this economic model, with certain modifications, is still the fastest road to satisfying a country's aspirations and maintaining social justice."

He continues: "Brazil has much to offer—a big domestic market, vast natural resources, a young and ambitious population, major development investment programs, continental dimensions—in sum, all the basic requirements necessary to bring us into the community of developed nations."

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Confederation of Commercial Associations of Brazil

President: Ruy Barreto

Address: Rua da Candelaria, 9-12th floor

20091 Rio de Janeiro, RJ

Telephone: 021-224-5250

Telex: 021-21141 ACRJ BR

Entity which congregates all federations and commercial associations of Brazil (27 affiliated). Has representation in all states of Brazil.

Foreign Trade Foundation

President: Marcus Vinicius Prati

de Moraes

Address: Av. Rio Branco, 120-7th floor

20040 Rio de Janeiro, RJ

Telex: 021-23938 FCEX BR

Entity dedicated to establishing better trade conditions, through the formation of human resources, support to enterprises dedicated to foreign trade and studies and research in the field of foreign trade.

Association of Brazilian Exporters

President: Laerte Setubal Filho

Address: Av. Marechal Camara, 210-2nd

floor

20020 Rio de Janeiro, RJ

Telex: 021-22211 AEXB BR

Telephones: 021-242-5892

222-4297

Entity which associates Brazilian enterprises connected to foreign trade. Presently has 788 associated organizations.

Brazilian Association of Trading Companies

President: Jose Flavio Pecora

Address: Rua da Quitanda, 191-gr. 703

20091 Rio de Janeiro, RJ

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1. *"Legal Considerations Relating to U.S.-Brazilian Joint Ventures,"* prepared by the Washington-based law firm of Hogan & Hartson. This work analyzes the various legal considerations involved in establishing corporate joint ventures in Brazil, including tax implications. Price: \$10.00

2. *"The Brazilian Investment Policy: Priorities and Perspectives,"* by Dr. Rubem Novaes, economist at the Brazilian Trade Foundation in Rio de Janeiro for the Brazilian Section, Brazil-U.S. Business Council. This study reviews the broad range of incentives available for industrial and agricultural projects in Brazil at the federal and regional levels. Price: \$4.00

Copies will be sent upon request directed to Mr. Keith Miceli, Executive Secretary, U.S. Section, Brazil-U.S. Business Council, 1615 H Street, N.W., Washington, D.C. 20062. ■

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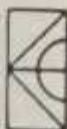
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THE ACADEMIC CONNECTION

Johns Hopkins creates the first Center of Brazilian Studies

A "Brazilianist" is a scholar who studies Brazil. The term was coined by Brazilian academics who, observing with an element of amusement and flattery the zeal with which some of their foreign counterparts undertook to interpret the Brazilian experience, bestowed upon them a special classification.

Most Brazilianists come from American universities. Given the number of elements common to the histories of Brazil and the United States, it seems natural that Brazil would draw the attention of American scholars. Brazil and the United States are new nations, both of continental proportions and representing a wide range of ethnic backgrounds. Both are noted for their supplies of natural resources, agricultural production and industrial base. Albeit more recently in the Brazilian case, the frontier has played a role in the histories of both.

Although the Brazilianists represent a spectrum of viewpoints, they generally display certain common characteristics. Their academic endeavors tend to be oriented almost exclusively towards Brazil. They maintain close contact with Brazilian scholars and friends. They have a personal involvement in the Brazilian experience which drives them to Brazil whenever the itch comes, arouses them to participate in Carnival, stirs them to appreciate *cachaca* or *candombie*, leads them to follow soccer from afar and causes them to react with glee, anger, or sobriety with the unfolding of current political and social events in Brazil. In short, they live their calling intensely.

If Brazilians defined the Brazilianists, the Brazilianists have carried the momentum forward. In May of 1978, the Center of Brazilian Studies at The Johns Hopkins University School of Advanced International Studies, under the executive direction of Dr. Riordan Roett, one of the country's most noted Brazilianists and director of the Latin American studies program at the School of Advanced International Studies, was officially inaugurated in Washington, D.C. The Center of Brazilian Studies is the first institution in the United States devoted exclusively to the study of Brazil's international political and economic relations.

On the basis of a working agreement between Johns Hopkins and the Foreign

Trade Foundation of Rio de Janeiro, the center draws heavily upon the foundation for academic cooperation and administrative support. The president of the foundation, Marcus Vinicius Pratini de Moraes, serves as the chairman of the center's advisory council.

Dr. Roett explains the center's orientation: "Brazil's economic growth and changing political climate are altering its relations with other countries. Brazil has emerged as one of the most important of the developing countries and has become a spokesman for their interests. At the same time, it is often regarded as a new member of the industrialized world. The center's goal is to analyze developments in Brazil as they unfold and assess their impact on relations with the U.S. and other countries."

As the only institution of its kind in the United States, the Center of Brazilian Studies runs an intensive schedule of diverse programs and events.

"Many Americans still think Brazil is a snake-infested jungle whose capital is Buenos Aires," says Dr. Roett. "On the other hand, a surprising number of Ameri-

cans are attuned to the political intricacies of the northeast or interested in the success of the national literacy programs, for example. The center tries to reach all of these people in an effort to open every possible avenue of communication and understanding between Brazilians and Americans," he explains.

The center sponsors academic courses on Brazil, a fellowship program for Brazilian students, and internships in Brazil for American students. It also conducts research activities and promotes a series of seminars, roundtables, and discussions throughout the year on current issues in Brazilian international relations. Through its distinguished visiting fellow program, the center provides an opportunity for prominent Brazilians to meet informally with students, professors, congressmen, public officials, and businessmen. The center's first distinguished visiting fellow, Dr. Aureliano Chaves, is the former governor of the state of Minas Gerais and vice president-elect.

Support for the Center of Brazilian Studies has been enthusiastic. Following a

Top American Universities promote Study Programs in Brazil

Leading Brazilianists at a recent meeting in Racine, Wis., formed a national coordinating committee to organize a program for study abroad at the University of Sao Paulo. Members of the committee include Roett (political science—Johns Hopkins); Thomas Skidmore (history—Wisconsin); Werner Baer (economics—Illinois); Frederick Williams (Brazilian literature—University of California at Santa Barbara); Robert Levine (history—State University of New York at Stony

Brook); and Claus Cluver (comparative literature—Indiana). The first chairman is John Wirth (history—Stanford).

The committee's objectives are both to train students to accompany and understand the dynamics of Brazil and to support Brazilian studies in the United States. Through its office of overseas studies, Stanford University will administer the committee's one year program in Sao Paulo, open to some 25-30 qualified students. ■

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“In 1979, the center will co-sponsor a bi-national conference on Brazil with the Council on Foreign Relations.”

visit by Dr. Roett to Brazil in 1977, the Brazil-U.S. Business Council gave its endorsement to the center concept. Private sectors of both countries fund the center through grants.

"We do not receive and do not wish to receive money from governments," states Dr. Roett. "The American system is always to opt for foundations, seeking financing from the private sector to launch academic centers," he adds.

In its first year, the center's programs have included Brazilians and Brazilianists alike. Dr. Affonso Celso Pastore, of the Foreign Trade Foundation in Rio de Janeiro and director of the School of Economics and Administration of the University of Sao Paulo, presented a paper on Brazilian export policy and its impact on economic development. Dr. Celso Lafer, of the department of international law at the University of Sao Paulo Law School and a member of the center's advisory council, led a discussion of the institutional context of economic decision-making in Brazil.

Dr. Douglas H. Graham of the Ohio State University reported on his research on agricultural policies and recent economic growth in Brazil which he conducted with Dr. Jose Roberto Mendonca de Barros of the University of Sao Paulo Economic Research Institute. The final seminar reviewed a paper on future policy alternatives for Brazilian economic growth, presented by Dr. Pedro Sampaio Malan of the Institute for Economic and Social Planning in Rio de Janeiro. Other events featured Dr. Angelo Calmon de Sa, Brazilian minister of industry and commerce; Paulo Diederichsen Villares, president of the Villares Industrial Group and a member of the center's advisory council; Dr. Marcus Vinicius Pratini de Moraes, former minister of industry and commerce and president of the Foreign Trade Foundation; and Brazil's finance minister, Mario Henrique Simonsen.

In 1979 the center's programs will include a bi-national conference on Brazil to look at Brazil's present and future international roles as an emerging middle power.

The conference, co-sponsored by the Council on Foreign Relations, Inc., will include about 35 Brazilian and American corporate executives, senior scholars and policy makers. The conference is noteworthy as it marks the first time the Council on Foreign Relations has held a bi-national conference on a "developing nation."

The center has quickly established itself as a clearing house for scholars, public leaders, business executives and students interested in current Brazilian political and economic issues. With strong encouragement from the Brazilian private sector, the center seeks continued financial support from the American business community with interests in Brazil to further its programs of public discussion and to expand its activities in other areas.

If it took Brazilian scholars to tell the Brazilianists who they are, it will be strong programs such as the one sponsored by the Center of Brazilian Studies at Johns Hopkins which will propagate and multiply their numbers.



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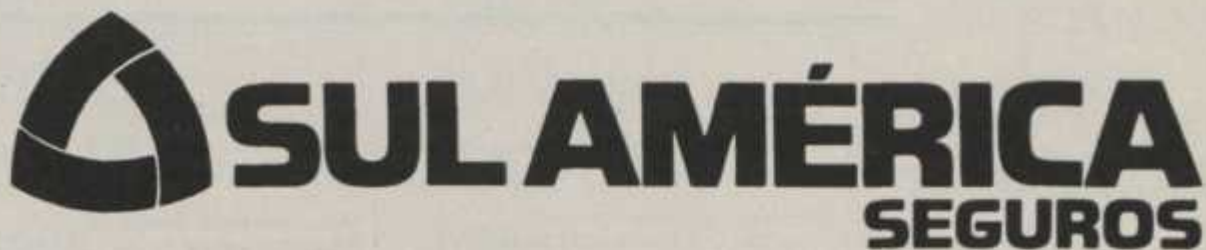
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New Tax Law Means Less Bite, More Breaks for Small Business

By Mary Paul

SMALL BUSINESS got a substantial share of benefits from the tax bill that was signed into law last month, although all business will benefit to some degree.

Tax aid for small business ranges from lower corporate rates to a new method of forming pension plans that skirts regulatory red tape. Other boons for small business are found in product liability, the investment tax credit, changes for Subchapter S corporations, and liberalized treatment for losses on small business stock. Following is a summary of the more important features of the new law for business:

Corporate Rate Reduction

The new graduated rate structure favors small businesses, although there are reductions for companies of all sizes.

The largest reduction is for businesses with earnings between \$50,000 and \$75,000; the rate drops to 30 percent from 48 percent.

It is relatively easy for a small, individually owned business with gross income of up to \$200,000 to take enough deductions to get into this category.

For example, a person in the real estate business with this gross income might first deduct the reasonable salaries of employees, say \$100,000 for 10 agents' annual base pay. Another \$40,000 could be deducted for ten company cars that the agents use.

The net income for the real estate business is now down to \$60,000 from a gross of \$200,000. Under the new law, the tax will be \$12,250, a substantial decrease from the \$15,300 that would have been owed at the old rates.

Individual Capital Gains

A reduction in the capital gains tax will increase the amount of funds available for capital formation. Large and small businesses will benefit because the reduced tax rate will give individual taxpayers more incentive to realize their existing gains and reinvest in business.

Essentially, the maximum tax rate on individual capital gains drops from more than 49 percent to 28 percent. This is accomplished by increasing the capital gains exclusion to 60 percent from 50 percent and changing the capital gains minimum tax rules.

Thus, if an individual is in the 70 percent tax bracket and pays tax on only 40 percent of capital gains, the effective rate is 28 percent.

Capital gains are generally profits from the sale of stocks and bonds, real estate, and certain other types of investments. Preferential tax treatment is given only to gains on property held for a year or more; short-term gains are treated like ordinary income for tax purposes.

Capital Losses

The only substantive change in business capital losses on small business stock was made to spur investment in small corporations.

The previous dollar limitations on this Section 1244 stock were established in 1958. Congress increased these limits to cover the greater capital needs of small corporations and to account for the effects of inflation.

Previously, a small business corporation could issue no more than \$500,000

in qualifying stock; that has now been raised to \$1 million. The new law also abolishes the equity limitation of the previous law.

Most important, the law doubles the amount of losses subject to Section 1244 treatment for any taxable year. Under the new law, the maximum amount will be \$50,000. For a husband and wife filing a joint return, the amount is \$100,000.

Under the new law, small business stockholders can use ordinary loss treatment on investment losses. This type of loss treatment is generally a better deal than capital loss treatment. Ordinary loss will directly offset income from wages and other sources, while deductions for capital losses are limited.

Corporate Capital Gains

The alternative rate for corporate capital gains is cut from 30 percent to 28 percent. Industries such as mining and timber will benefit especially. Unlike inventories of many businesses, timber is treated as a capital asset. The value of the tree increases simply because it grows.

The timber industry currently gets more than a quarter of its \$765 million in annual tax savings from this type of capital gains tax. One large company saved \$47 million last year. Under the new tax law, it would have gotten an additional \$3 million.

Investment Tax Credit

Previously due to drop to seven percent in 1981, the tax credit will stay at its current limit of ten percent under the new law. In addition, its use will be

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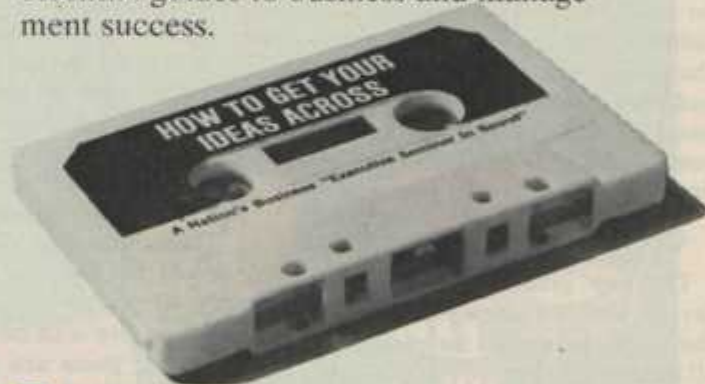
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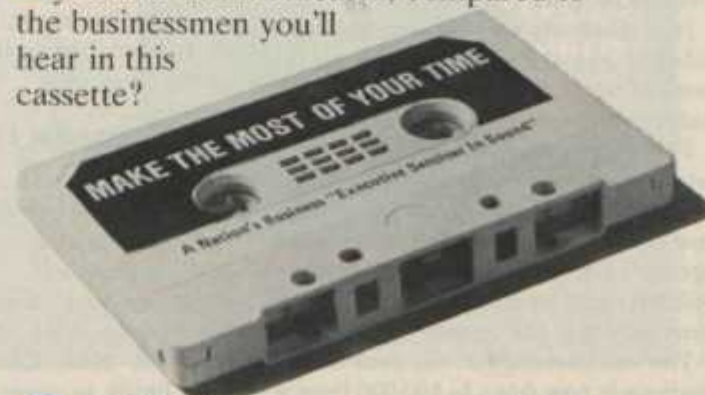
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Small Firms Take Their Chances

Court awards in product liability cases have mushroomed, causing steep increases in insurance costs for big and small businesses.

The Industrial Safety Equipment Association reports that average awards last year in cases involving its members was \$174,989. That's a 15-fold increase over the 1965 average. Insurance premiums for product liability coverage alone rose 210 percent from 1974 to 1976.

Two years ago, a machine tool builder lost a judgment of \$1,250,000 to a 67-year-old man who had been working on a new job for only two

weeks. He had been poorly trained and accidentally caught his arm in a hydraulic press which malfunctioned.

In another case, a jury awarded \$751,000 to an 18-year-old machinist who lost a leg when he stepped onto a screw auger conveying machine. He claimed that the machine, which had been improperly installed, should have been designed to prevent accidents caused by poor installation.

Because of such judgments, some companies—particularly the smaller firms—are now operating without insurance, despite the fact that just one suit could wipe them out.

extended to the rehabilitation of certain types of buildings for business purposes.

The credit on the cost of new machinery or equipment can still be used in full to offset \$25,000 of tax liability. Only half of the liability exceeding this amount can be offset. This percentage of regular tax liability in excess of \$25,000, to which the credit will apply, will be changed from 50 percent to 90 percent; the increases will be phased in at ten percent a year, beginning next year.

The investment tax credit will also be extended to rehabilitation expenditures on buildings in commercial use for 20 years which have not been rehabilitated during that time. The provision applies whether the firm has occupied the building for that period or has just moved in.

The full amount of investment in pollution control facilities amortized over five years will be eligible for the whole tax credit rather than just half, but only to the extent that the facilities are not financed by industrial development bonds. The law also extends the credit to single use agricultural or horticultural structures such as pigpens and greenhouses.

Retirement

Small businesses that have not set up pension plans because of the cost of regulatory paperwork will get tax deductions for contributions they make to employees' individual retirement accounts. It is estimated that this provision will cut the average \$2,500 compliance cost to \$500.

Individuals who have set up IRAs

net operating losses back three years and forward seven years to offset income. The new law allows a ten-year carryback for product liability losses.

In addition, businesses will be able to set aside reasonable amounts of their after-tax reserves to meet liability-related claims. This eliminates the possibility of having to pay a penalty tax on excess accumulated earnings and thus offsets the benefit of the tax change.

Subchapter S Corporations

The tax code allows certain small corporations to choose to be treated like partnerships. Under Subchapter S, each shareholder pays tax on his or her share of profits, and no tax is imposed on the corporation itself.

Under the new tax law, all corporations that have been classified under Subchapter S can have 15 shareholders initially. A husband and wife or their estate will be treated as one shareholder, regardless of how they choose to hold their stock.

In addition, corporations will have more time to decide whether they want Subchapter S status. Under the former law, this decision had to be made within a two-month period, but the new law gives corporations the entire previous year plus 75 days to decide.

Contractors

Congress decided to give employers a breather from their battle with the Internal Revenue Service over whether real-estate brokers, truckers, insurance salespeople, and the like are actual employees or individual contractors. If they are employees, the company must pay social security and unemployment taxes on their incomes and withhold federal income taxes; if they are contractors, they are responsible for these taxes themselves.

The new law forgives pre-1979 taxes assessed against firms by the IRS as long as there is a reasonable basis for treating employees as independent contractors. In addition, the law bars

may put aside a maximum of \$1,500 or 15 percent of their earned income, whichever is less. Those with spouses can put in slightly more.

Now, employers will be able to make tax-deductible contributions to an employee's IRA of up to \$7,500 or 15 percent of earned income, whichever is less, as long as a special nondiscrimination requirement is met.

A law firm may want to set aside \$6,000 a year for each of its ten employees. The tax deduction would be \$60,000. Should an employer chip in less to the IRA than the individual limit, he will still get a deduction for the contribution, and the employee will be able to pay the difference to bring the account up to the limit.

Product Liability

All corporations will benefit from the new rules covering product liability expenses, but small businesses will be the prime beneficiaries. Small businesses, with their limited cash resources, have been hurt more by the punitive court awards of recent years than larger companies.

Previously, businesses could carry

New Corporate Rate Reductions

| Taxable Income | Old Tax Rate | New Tax Rate |
|-----------------------|--------------|--------------|
| Under \$25,000 | 20% | 17% |
| \$25,001 to \$50,000 | 22% | 20% |
| \$50,001 to \$75,000 | 48% | 30% |
| \$75,001 to \$100,000 | 48% | 40% |
| More than \$100,000 | 48% | 46% |



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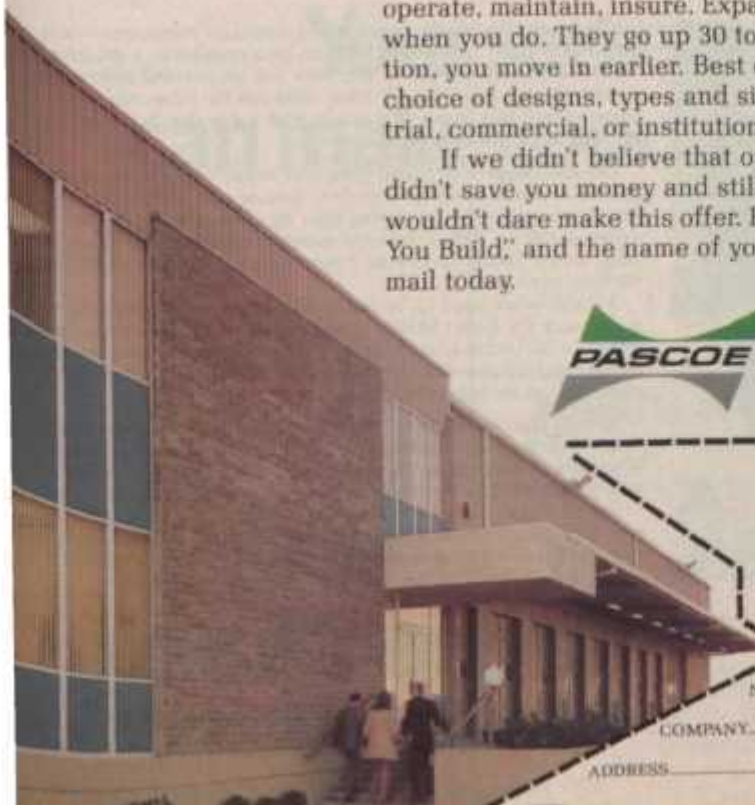
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Investment Tax Credit Bonus

Businesses can qualify for a bonus 1.5 percent on the ten percent investment tax credit by contributing to employee stock ownership plans.

To encourage more businesses to contribute to these plans, Congress decided to continue until 1983 the additional point of investment credit to corporations that contribute an amount equal to the point of credit to the plan.

The maximum tax credit in this case is 11 percent, and the plan must meet the standards of the Tax Reduction Act of 1975.

A business is eligible for an additional one half percent of investment credit when a sum equal to that contributed by the business is contributed by an employee. This plan brings the maximum credit to 11.5 percent.

Employee stock ownership plans allow employees to own shares in their employer's corporation in proportion to their relative salaries.

the Treasury Department and IRS from publishing any new rules on the employment status of independent contractors until 1980.

In essence, the whole issue has been put on hold until the next Congress. Experts expect that then the matter will be decided legislatively rather than by the IRS or the Treasury.

Targeted Jobs Credit

A targeted jobs credit for certain groups of disadvantaged workers will replace the current jobs tax credit. These target groups include vocational rehabilitation participants, economically disadvantaged youths, certain Vietnam veterans, former convicts, and welfare recipients.

In any taxable year, the credit will equal 50 percent of qualifying first-year wages up to \$6,000 and 25 percent in the second year. What this amounts to is a maximum tax credit per employee of \$3,000 in the first year of employment and \$1,500 in the second.

This new credit for employers will be available for taxable years beginning on Jan. 1, 1979 through Dec. 31, 1981 for target employees hired after Sept. 26, 1978.

Entertainment

A proposal that would have limited deductions for business meals and other business-related expenses was considerably modified by Congress, leaving the tax-deductible use of common entertainment facilities intact.

Businesses can no longer take deductions for yachts, fishing camps, and hunting lodges. By error, deductions for certain club dues were banned, but this will be corrected by legislation early next year.

Still allowable as deductions are dues and fees to civic and professional organizations and business luncheon clubs, business meals, and tickets for entertainment.

Also still deductible are interest, taxes, and casualty losses—regardless of the taxpayer's trade or business.

All in all, the experts say, the new tax law is generally good for business. Particularly beneficial are the changes in the personal capital gains tax and the tax breaks for small business. The new law, the experts say, can easily be used as a springboard for more pro-business legislation in the next round of tax debate. □

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The Radio Shack personal computer surely ought to be on the gift list of every concerned parent, despite that \$599—though less than a moped—is costlier than an electric train. A father writes to tell us "this investment is one of the most significant in value to our family and to the future education of our child that we have ever seen."

A Californian, aged 12, writes to tell us that he's "too young to go to work for Radio Shack... but maybe we could work a deal where I could write some programs for you." An educator thanks us for "making possible the tapping of human innovation and creativity on an unprecedented scale."

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How to Lose Your Shirt and Double Earnings

John J. Pomerantz does not like leisure suits. "They're ugly," says the president of Leslie Fay, Inc., a diversified manufacturer of dresses and sportswear. "But at the time we went into the business, everybody was wearing them. People still do wear them."

The reason for Mr. Pomerantz' disaffection for leisure suits is basic: His company and just about everybody who gambled that leisure suits would revolutionize the menswear business lost their shirts. Leslie Fay's two menswear divisions had about \$15 million worth of goods and sold \$4 million.

"Leisure clothing is a way of life," says Mr. Pomerantz sagely, "but not leisure suits."

Leslie Fay's earnings slipped to \$2.3 million in fiscal 1977 on sales of \$148.4 million, but every garment has a profitable lining, to update an old saying. In fiscal 1978, earnings nearly doubled to \$4.5 million on only a 17 percent gain in sales.

How? In bland business terms, the objective was accomplished through a key corporate and divisional management restructuring and a significant increase in advertising and promotion.

In John Pomerantz' terms: "We brought in some great people and got rid of the two divisions that were dragging us down. Six companies evolved into 13 divisions, each with its own production staff, its own salespeople, its own designers."

"We are now doing what we know how to do best. We try to have a company that caters to every segment of a woman's wardrobe—sweaters, skirts, coordinated sportswear, and dresses ranging from popular priced to designer for the regular woman, the junior woman, the half-size woman, and lately, the petite woman."

"This way we are always going to have something going for us," Mr. Pomerantz adds. "Whatever women are wearing, we want to make it."

Women seem to be wearing skirts and dresses again, and Leslie Fay has used the theme, "How to Dress in a Dress," in a series of in-store and commercial television advertisements that help to high-



One of those never-to-be-forgotten moments for John Pomerantz, right, and his father, Fred P. Pomerantz, was the day they were listed on the New York Stock Exchange. At left is Merle S. Wick, now retired NYSE vice-president.

light the company's brand names—Leslie Fay, Kasper for Joan Leslie, Andrea Gayle, Leslie J., Personal Sportswear, Breckenridge, Outlander, Knitivo, Fay's Closet, L. F. Petite, Personal Property, Leslie Pomer, and Kasper for J. L. Sport.

"Women are comfortable buying a brand," says Mr. Pomerantz. "We had to let women know that Leslie Fay was back in town. Over the years, the lines had gotten a little staid, so we updated our designs, making our clothes younger looking and snappier. You have to remember, you are not selling your garments to the store, you are selling them to the customer."

To do that, Mr. Pomerantz' goal is to get 25 percent of a particular store's space for his garments. "More than 25 percent is unhealthy," he says. "If business isn't good, the buyer is likely to blame your lines. When you make a line, you know that some of the things are going to be bombs—you don't know which ones, of course—but everybody makes a bomb or two. You just hope the good items overshadow the bombs."

What makes a bomb? "We take a

really hard look at every garment that doesn't sell," says Mr. Pomerantz. "Figuring out why is pure guesswork."

"I have seen dresses where the pin was on one side, and the garment was a fabulous seller. Move the pin to the other side, and the dress sat on the racks. Same dress."

Ah, the fanciful fickleness of feminine fashion.

The MGIC Touch in Home Loans

Max H. Karl became impatient with the home mortgage industry in 1957. "Trying to get a loan through the Federal Housing Administration required the patience of Job," he says. "And the only other alternative was to put down 25 or 30 percent of the price. There were no in-betweens."

Mr. Karl, a Milwaukee lawyer whose work was mostly in real estate—"I was the Karl part of a law firm called Frank,



Government and private enterprise ... living side by side, says Max Karl.

Karl, Bessman & Hiller"—decided the only answer was to compete with the federal government.

He fashioned a scheme to insure the top 20 percent of a 90 percent home mortgage, sold the idea to a few savings and loan associations, and found himself running his own business, the Mortgage Guaranty Insurance Corp., a rather bland name which was quickly shortened to MGIC, pronounced "magic."

Competition with the FHA was no contest. From a modest capitalization of \$250,000, MGIC brought in about \$104.5 million worth of net premiums in 1977, covering about \$8.6 billion in domestic loans. And MGIC is not alone—there are 13 competitors insuring mortgage credit.

"We were the first then, and we are the largest now. But it wasn't an idea I could patent. I wish I could have."

Within the industry, which insures 10,000 loans every week, competition is acute. "We compete for every loan," says Mr. Karl. "Most of the financial institutions we do business with also do business with one or more of our competitors. We have to scrutinize every loan, looking for the telltale signs of a bad credit risk."

That appellation is stamped on potential borrowers who have a history of not making their credit payments on time, who have used their available credit to the hilt, or who simply do not earn enough to cover the costs of the house they want to buy.

"It is not just a pat, dollar-and-cents formula," says Mr. Karl. "We do make exceptions, but we don't take speculative chances. We are interested only in owner-occupied properties."

With the median price of a new home hovering around \$50,000, is the American dream of home ownership a fading mirage? "Not at all," says Mr. Karl, "not with all the creative ways of mortgaging

a home that are being explored today. Buying a home is really a forced savings plan. It is the one real hedge we have against inflation."

But how high can the price of a home go? And how high can interest rates go? As high as wages, says Mr. Karl. "Interest is a fact of life. If you borrow, you have to pay interest."

"In 1974-75, money was tight, and the interest rate was high. When it hit ten percent, it then slacked off because lenders were having difficulty qualifying buyers. There were other reasons, too. But today, interest rates in some situations are at or over ten percent, and I don't see them slowing down."

Mr. Karl's initial scorn for the FHA's bureaucratic ways has mellowed over the years. "Today, there is compatibility between what we are doing and what the FHA is doing," he says.

That cooperation was demonstrated by a nonprofit construction venture in downtown Milwaukee. MGIC built 119 three and four-bedroom homes ten years ago; 40 percent of the mortgages were obtained from FHA, and 60 percent were conventional.

"It was a remarkable experiment," says Mr. Karl. "People of different incomes in the same neighborhood. I am all for a good racial and ethnic mix in a neighborhood, but even more important is the economic mix."

However, MGIC is not in the housing construction business. Nor can it insure loans for lower-income families who cannot meet a mortgage. "Private capital can only go so far," says Mr. Karl. "When you get into loans that require some kind of subsidy, I think that government is the specialist."

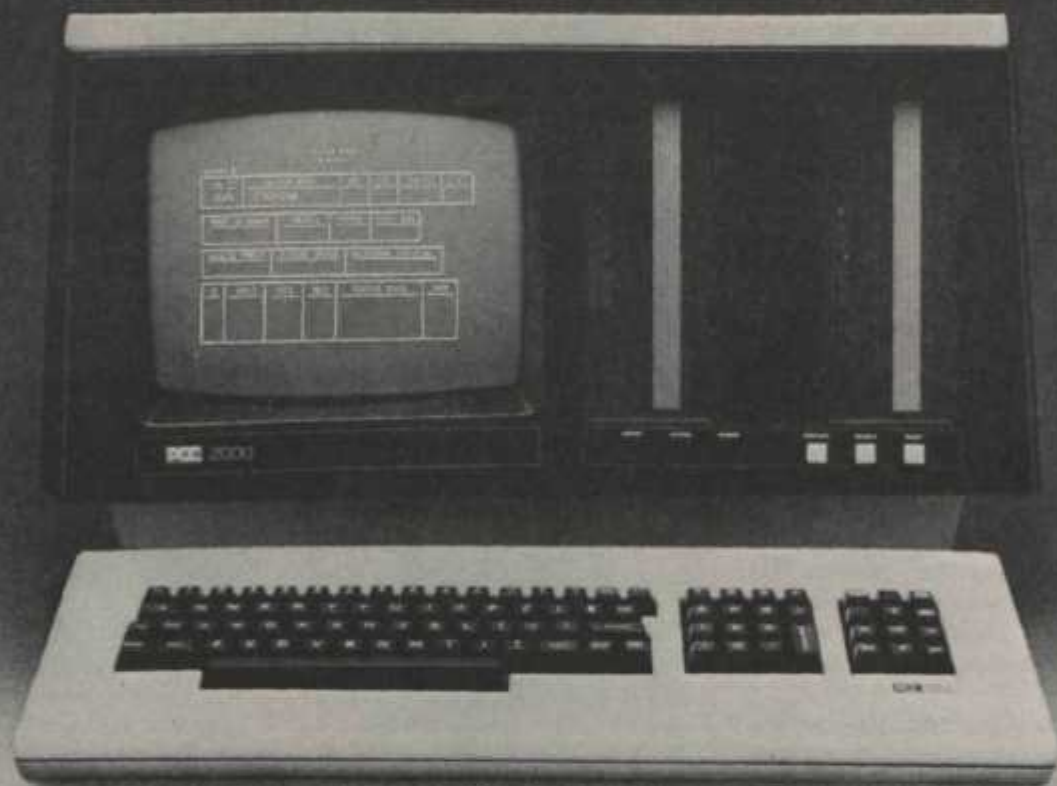
Are government and private enterprise becoming partners in the housing field? Not quite, says Mr. Karl. "Let's just say that we are now living side by side, fairly happily."

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An Uphill Battle for Full Voting Rights

IF READERS' responses to the October "Sound Off to the Editor" are indicative of the general feeling nationwide, the District of Columbia faces an uphill battle in its fight to win full voting rights.

By a margin of six to one, readers rejected the idea of full voting representation for the nation's capital.

Congress has approved a constitutional amendment which is now before state legislatures for approval. The amendment would give the district two senators and probably one congressman. Currently, D.C. residents elect only one nonvoting delegate.

Those opposing the amendment contend the district should remain a neutral federal territory. Sens. William L. Scott (R-Va.) and Ted Stevens (R-Alaska) suggest that district residents should vote in Maryland or Virginia, as they did before the district was created.

Proponents argue that the current situation is a case of taxation without representation. Some say it is a civil and human rights issue.

"Call it what you will, D.C. is in fact just a big city," says Robert M. Clinckinbeard, president of Breeders Supply & Equipment Co., Lexington, Ky. "To give it the power to vote, even approaching that of the individual states, is a distortion."

Another no vote comes from Garrett Redmond, president of Express Agency Services, Inc., San Francisco. He says: "The answer is to change the district's boundaries. Limit it to the areas of government buildings and lands plus all foreign embassies. Return the rest to Maryland and Virginia."

Nello L. Teer, Jr., president of Nello L. Teer Co., Durham, N.C., also voted no but would go one step further. "Give the district back to Maryland. We don't need a District of Columbia."

Dan Fitzgerald, executive director of the Adams County Chamber of Commerce, Denver, cast his vote in favor of full voting rights for the district. "That the question is still being asked in a country that has had representative government for 200 years is absurd."

Leading the Movement... Pro and Con



Sharon Pratt Dixon, associate general counsel for the Potomac Electric Power Co., Washington, D.C., says: "It is imperative that our nation's capital be in the vanguard of the human rights movement internationally."



"Our founding fathers were wise to make Washington, D.C., a separate disenfranchised district. The people who live there do so voluntarily," says Dennis Mitchem, partner, Arthur Anderson & Co., Phoenix, Ariz.

Another no vote comes from Glen Howard, president of Sym-trac, Inc., Muncie, Ind. He says: "The economy of Washington, D.C., is 100 percent dependent on the American taxpayer."

Says John Rhoads, an engineer with Kadane Oil Co., Wichita Falls, Texas: "We do not need any more political clout from the liberal East."

J. Paul Beuttner, operations manager of Berol USA, Fair Lawn, N.J., casts his vote in favor of the amendment. He asks: "Why should the 690,000 citizens of D.C. have less representation than those of Alaska, Delaware, Nevada, the Dakotas, Vermont, and Wyoming?"

"The pro arguments are spurious," says D. L. Newberry, group vice-president at the Texas Gas Transmission Corp., Owensboro, Ky. "If all areas of 690,000 population and 67 square miles should have individual voting

rights, then why not a whole new series of city-states? This is but another ploy to aggrandize our tax-paid 'Disneyland East.'"

"It would be unfair to grant voting rights to a city that is void of any industry or farming operations," says Wilford A. Hall, owner of Hall Machine Works, Clear Lake, S. Dak.

"District of Columbia residents paid \$1.63 billion in federal taxes in 1977, ranking 40 out of 51. However, this averages out to \$5,905 per household, ranking it 8 out of 51." These statistics are offered by Thomas E. Debruycker, manager of business development for the Morrison-Knudsen Co., Inc., Washington, D.C. He voted yes.

A no vote and curt comment on the issue came from John W. Carter, president of Alexander Engineering Co., Inc., Detroit. Mr. Carter says: "Rhode Island is bad enough!" □

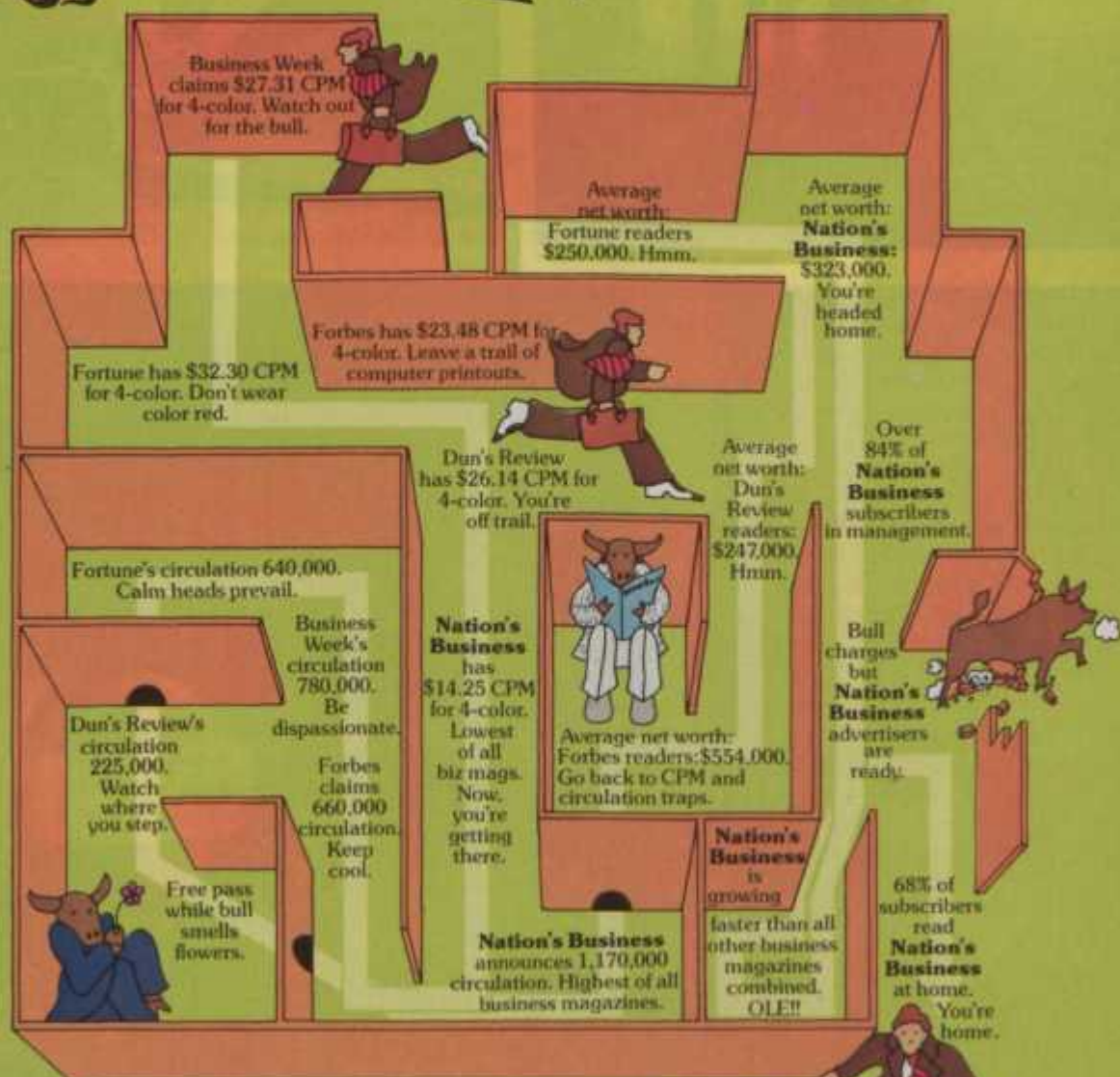
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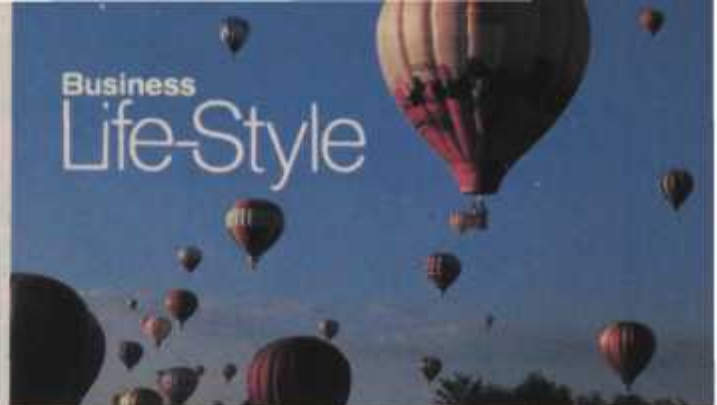


PHOTO: LEO EISENBERG



PHOTO: FRED AND LOIS BELL
PHOTO: BENSON WINSTON/LEHMAN



BALLOONING



IT'S LOVE AT FIRST FLIGHT

By John Costello

GOOD MORNING. After that greeting, the short, stout, elderly gentleman walked through the ankle-high grass toward the big red, white, and blue balloon.

"I own this golf course," he explained. His tone was not unfriendly, but something in his manner suggested that perhaps his visitors from the sky should have thought about the greens fee.

One of those visitors was Frank Revelle Thompson, and his landing on a suburban Washington public course was the successful end of a typical flight in his pride and joy, Reveille, a 57,000-cubic-foot hot-air balloon.

He had brought it down smoothly, with only a gentle bump, ten feet off the fairway and 100 yards from the clubhouse.

Suzi Watson, captain of his chase crew, had suggested facetiously that he shoot for the 19th hole. He hadn't missed it by much. He had frightened no cattle, damaged no crops, and infuriated no property owners, not even the golf course proprietor.

Pilot and crew broke out the champagne.

Reveille's flight had begun an hour and a half earlier, about 20 miles away. Mr. Thompson and two fellow aeronauts had met before dawn at an

auto dealer's parking lot in suburban Maryland. Each pilot brought his balloon.

Mr. Thompson's arrived in his Bearcat van, Pat Michaels's in a pickup truck, Wally Henderson's in a club wagon. With passengers and crew, they drove to the launching site, a big open field about a mile away.

Together, the 13 early birds gathered in the growing light stretched the long, pear-shaped, nylon bags across the dewy grass. Then they held open the wide throats of the balloons as the pilots inflated them with cold air, blown in by a big, rotary fan.

When the balloons were full, they turned on the propane burners to heat up the air inside. As the cool air warmed, the gay, multicolored bags lifted gently off the ground.

Shortly after sunrise, the three balloons lift aloft, one by one. No roar of piston engine or shriek of turbojet. Just the rhythmic whoosh, whoosh of the propane burners when the pilot sends a jet of flame into the huge capsule of heated air that keeps him aloft.

That very morning, as the sun raced west, the same scene was repeated in the flatlands of Illinois, Iowa, and Indiana, down south in the Carolinas and Georgia, in the uplands and mesas of Colorado and New Mexico, between the mountains and the sea in California. As the sun rose, so did brightly colored, boldly designed hot-air balloons.

Each carried a tiny basket, barely

large enough for two or three adventurers, hanging from the nylon shrouds, thousands of feet above the waking earth.

Hot-air balloonists see a lot of sunrises because morning is the safest time to fly, before thermals rise from the sun-warmed earth.

In an age of punch cards, memory banks, microprocessors, laser beams, and other miracles of high technology, the hot-air balloon is a Jules Verne key to another world.

JOHNSON and Carol Davis of Albuquerque, N.M., fell in love with ballooning before they even got off the ground.

"We went to a rally near a shopping center in Albuquerque," John says. "It was the first time either of us had ever seen a balloon except on TV. But right then and there, we decided that ballooning was for us."

The day after, John saw a balloon advertised for sale in a newspaper.

"Five of us got together," he says, "and bought it." Carol sold her Pinto to raise her share and started riding to work on her 10-speed bicycle.

Now the Davises have his and her balloons.

His is called Raggedy Ann, a 42,000-cubic-foot balloon. Carol's is the 45,000-cubic-foot Diamond Queen, with a big blue diamond running around its middle.

Two Frenchmen, Etienne and Joseph Montgolfier, invented the hot-air

Lifting lightly into the sky on air kept hot by propane burners, these balloons wander at the whim of the winds.



Balloonists opt for colorful and often unusual designs, such as John Davis's appropriately named Raggedy Ann.

balloon. They noticed that small paper containers would rise in the fireplace of the family's chateau. That gave them the idea.

Their balloons were made of linen and paper. Smoky straw fires wafted them into the air and kept them aloft. The first one with men aboard went aloft on Nov. 21, 1783.

In it, Francois Pilatre de Rozier and Marquis Francois-Laurent d'Arlandes were airborne 25 minutes, climbed as high as 3,000 feet, and traveled eight miles across Paris. Not a bad flight, even by today's standards.

Most trips in a hot-air balloon last about an hour and a half. The world record is 18 hours and 56 minutes. The longest trip was 350.7 miles.

Most of the world's 2,000 or so hot-air balloons are in the U.S. But even here, the sport is almost brand new.

In 1967, only 102 balloons were registered with the Federal Aviation Administration. In 1972, only 150. But five years later, there were 1,189—almost eight times as many. In 1972, only 50 men and women were issued lighter-than-air pilot licenses. In 1977, FAA issued 325. Today, more than 3,000 Americans are licensed balloon pilots.

Most major makers of hot-air balloons are American—Raven, Barnes, Adams, Piccard, Semco, Avian.

The sport isn't just for millionaires. A popular 77,000-cubic-foot balloon may cost less than \$7,000.

Why has a French invention swept the U.S.? Because of American free enterprise, says Don Piccard, president of his own balloon company.

Today's hot-air balloons are made of cheap, strong, lightweight, nylon-type fabric and are powered with propane gas burners.

"Du Pont invented nylon for women's stockings," Mr. Piccard says.

"And U.S. businessmen bottled propane gas—which once flared away over oil wells—to give the American farm wife what was advertised as 'City Gas Beyond the Main.'"

Also, the hot-air balloon has an excitement that appeals to Americans.

"It's big, bright, airy," says Mr. Piccard, "and it has fire, noise, and power. It has a throttle. When you turn on that burner, you're throwing out more power than a drag racer."

By contrast, gas balloons are drab and tiny.

"The envelope is a heavy, opaque fabric," he says. "My personal helium gas balloon is 5,600 cubic feet. With gas, you don't need a big hunk of a balloon. Mine packs up in a little laundry bag."

The gas balloon will fly much longer than a hot-air balloon, but it costs \$100 to fill up Mr. Piccard's with helium.

MAXIE L. Anderson is one of the three American balloonists who electrified millions with a successful flight across the Atlantic last August. They flew in the Double Eagle II, a huge helium balloon that cost thousands of dollars to inflate, in a six-day, 3,120-mile journey from Presque Isle, Maine, to a wheat field 60 miles from Paris.

It's a feat no man has ever accomplished before, although many had tried. Five men have been killed since 1958 in the attempt.

Mr. Anderson is president and chief executive officer of Ranchers Exploration and Development Corp. in Albuquerque. He and Ben Abruzzo, a longtime buddy and ski resort owner who flew the Atlantic with him, share a hot-air balloon.

"I usually fly hot-air balloons," he says, "not gas. First, because there's nothing serious about a hot-air balloon. It's strictly sport. And you ride the winds."

"It's sort of a free expression, and I'm a free enterprise man."

"Gas ballooning is a little more serious. If I fly a gas balloon, I really have a purpose, like setting a record."

Why is America such a hotbed of hot-air ballooning?

"We've got propane readily available," Mr. Anderson says, "and a lot of open space. Most countries don't."

"Propane is cheap here, about 50 cents a gallon. Most of the time, you fly a hot-air balloon about an hour and a half or two hours. That would cost you ten or 12 bucks."

A lot of the sport's charm is aesthetic, not merely aeronautic. "My balloon," says Janet Rinear, vice president of C. J. Rinear Co., Inc., a Philadelphia wholesale distributor of pipe, fittings, and valves, "is breathtaking. It's 85,000 cubic feet, the largest on the East Coast, and it looks like a giant Tiffany lamp. It's gorgeous—cream, chartreuse, and Kelly green. And it has little green flags all around the outside."

"I call it Nahini, which means Lady of the Sky in Hawaiian."

"We went up to Spokane, Wash., to get it, and we had a beautiful christening. We had 100 people at a big western barbecue. We covered the whole basket with flowers and had a big champagne party."

"It's a party," she says, "every time you go up."

Usually a champagne party. Early French balloonists carried a bottle or two to appease angry farmers if the balloon landed in the crops.

Now, champagne is a tradition. And unless the balloonist encounters a property owner who is very angry, or very thirsty, and requires jeroboams of appeasement, the pilot, passengers, and crew down the champagne at the end of a flight.

"If you bowl," one says, "you might split a six-pack."

"If you balloon, you may split a split."

FOR SOME REASON, men and women petrified at the top of a 15-foot ladder seldom feel fear in a hot-air balloon.

"There's no sensation of movement because you're moving with the wind," says Donna Brown, president of Blue Dragon, Inc., an editorial and graphics firm.

The company she and her husband founded was named after their balloon, the Blue Dragon.

"I'm afraid of heights," she says, "but not of ballooning. There is no sensation of being parted from the ground. It's like being at a museum and looking down at a model city laid out at your feet."

Gary L. Ruble agrees. "You don't have the sensation of height," says the owner of a Baskin-Robbins ice-cream store in Indianola, Iowa.

"My kids described it best," he says,

Etiquette for Aeronauts

Courtesy is the mainstay of pleasant ballooning. As more and more balloons fly, courtesy may determine whether the sport survives.

Unless aeronauts maintain a good reputation with the public, on whom they depend for launching and landing sites, ballooning could become much more restricted.

Here are some guidelines from Tom Davies, president of the Balloon Federation of America:

ON THE GROUND

- Don't launch without permission of the property owner.
- For early morning flights, choose sites where noise will wake the fewest people.
- If you fly often, line up several launch sites so you won't wear out your welcome at any one of them.
- Give the property owner a ride if he or she is interested. If not, throw a keg-and-tether party for the owner, friends, and neighbors.

IN THE AIR

- Don't fly low over homes, barnyards, or pastures where there is livestock. Remember, cows, horses, and pigs stampede at the sight or sound of

a balloon. Chickens and ducks panic.

- Tell your chase crew to observe the local speed limits and drive safely. You don't want to leave the impression that chase crews are hot-rodders.

- Don't fly on weekend afternoons—the balloon may attract auto traffic that will inconvenience other motorists.

HAPPY LANDINGS

- Don't land where property owners have made it clear that balloons are not welcome. Carry a map marked with these locations.
- Plan ahead to avoid landing in crops. A shorter flight is better than an angry farmer.
- Don't drive a chase car on private property without permission.
- If the owner can't be found, carry the balloon and basket off the property to the chase vehicle.
- Be sure all gates and fences are as you found them.
- If you do land in crops, ask the owner how to remove the balloon with the least amount of damage.
- Offer to pay for any damage, however slight. Travel with your checkbook and be willing to use it.

"after their first ride in my balloon. 'What was it like?' they were asked. 'Oh, people on the ground got smaller,' they answered."

Mr. Ruble's hometown is Albuquerque's only rival as the ballooning capital of the U.S. Both hold annual rallies—Albuquerque's Balloon Fiesta and Indianola's U.S. National Hot-Air Balloon Championship races—that attract more than 250 hot-air balloons.

In 1973 and 1975, the world championship races were held in Albuquerque. Mr. Ruble was local chairman of the second national championship in Indianola in 1971. "Ballooning rubs off on you if you live here," he says.

NOT ALL ballooning is high in the sky. Both Donna Brown and Jay Michael Vale like what she calls weed-top flying.

"Anybody can fly high," she says, "but to contour fly requires skill. We have a joke that you never want to fly higher than you want to fall."

Mr. Vale, who owns a picture frame and art supply house in Cupertino, Calif., says contour flying "separates the men from the boys."

"You have to be able to fly two feet off the ground, and then when you come to an obstacle like a tree, you have to lift and fly over it while just brushing the leaves."

As they drift along at weed top in their seven-story balloon, Rainbow Rider, the Vales make an interesting threesome.

There's Mick, his wife, Sally, and their dog, Taffy, peering over the side of the balloon's wicker basket, rubber-necking at the passing countryside.

Deke Sonnichsen, an executive with Lockheed Missiles & Space Co., is chairman of the Sports Ballooning Society of the United States of America.

He holds two of the world's oldest records in hot-air ballooning.

He set both on Oct. 11, 1966, at Tracy, Calif., when he took a Class-4 balloon—about 44,000 cubic feet—up to 21,250 feet. That is a record for both Class-4 and the bigger Class-5 balloons.

The record for a hot-air balloon of any size is 45,836 feet, set in 1974.

Mr. Sonnichsen was formerly a paratrooper with the 82nd Airborne Division. He started flying hot-air balloons in 1964.

Wouldn't ballooning be tame after jumping out of airplanes?

"A lot of people think that," he says, "but you spend all your time packing your chute, getting into a plane, and going up. Then it's all over—a quick ride up and a quick ride down."

"Ballooning gives you more time to look around and enjoy the scenery."

Participants include a lot of people who are not pilots. It takes one in the air to fly a balloon, but it takes at least two on the ground to find it. One to watch and one to drive a chase car.

That's the job of the crew—to inflate, chase, and retrieve. CB radios in the balloon and the chase vehicle help them to keep in touch.

Ballooning Janet Rainear says: "I love chasing just as much as flying. You never know where the balloon's going to go. It travels cross-country, sometimes across a creek or lake."

"You still have to find a road that takes you to it."

It's a glorified hare and hounds.

"You and the crew are part of a team," says aeronaut Leo Eisenberg, a commercial real estate developer in Kansas City, Mo.

"If you have a permanent crew, you get pretty buddy-buddy."

His wife, Jill, flies, too, but more often chases.

What intrigued the Eisenbergs about the balloon they bought is that it looks like a gumball machine—all 77,000 cubic feet of it.

"So we called it the world's biggest gumball machine. It attracts a lot of attention," he says.

In the spirit of the thing, his crew christened him Daddy Gumball.

BUT over and above the fun, there's the thrill of flight.

In a magnificent film, "To Fly," screened daily at the Smithsonian Institution's National Air and Space Museum in Washington, D.C., the opening scene shows an American balloonist in colonial times.

As he is about to leave Mother Earth, he addresses the crowd that has gathered to cheer him on. From the basket of his balloon, he declaims:

“Until today,
But birds alone
Were meant to take the sky.
But now,
Because of men like me,
All men of earth shall fly.
Beyond the clouds,
Twixt thunder and the sun,
Today, a new age has begun.” □

FREIGHT TRANSPORTATION:

A Network of Life's Necessities

By Michael Thoryn

Nation's Business
**INDUSTRY
SPECIAL
REPORT**



Compatible technology among the five major modes of freight movement can speed deliveries by air or on land and water. Giant cranes, some capable of handling 50 standard-size containers an hour, transfer goods from dock to ship.

GRAIN SHIPMENTS were moving from the farm belt. Automakers planned a full week of new-car assemblies. Late September was a bad time for a national rail strike.

So when a lengthy dispute between clerks and the Norfolk & Western Railway snowballed into a walkout that halted two thirds of the nation's rail freight movement, the Carter administration acted quickly.

Backed-up food supplies will "soon begin to rot," said Secretary of Labor Ray Marshall. "The administration is determined not to allow this strike to cripple our nation's economy."

The administration sought and won a court order that sent workers at 73 railroads back to work after only four days off.

Vital to economy

Certainly, a lengthy rail strike, or a truck strike for that matter, can cripple the nation. Freight and passenger transportation, which represents 20 percent of the gross national product, is such a vital resource that a break in the transportation chain can have staggering effects on consumers and the economy.

When the U. S. was founded, however, transportation was an obstacle to be overcome rather than a smoothly-running major industry.

Commerce was directed by merchants in the port cities. Cargo floated downstream in flatboats, and sailing ships served the coast. In the cities and countryside, dirt roads were the norm. It took three days by horse-drawn wagon to bump from New York to Philadelphia.

But changes were coming:

- The 364-mile Erie Canal, opened in 1825, knit New York City to what was then called the West. Travel time from Buffalo was cut from 20 days to five, and freight cost per ton dropped from \$100 to \$5.

- Railroads began supplanting canals in the 1840s. Trains spanned the conti-

nent by 1869 and dominated intercity passenger and freight markets.

- The first successful petroleum pipeline carried oil from a field in western Pennsylvania to a rail terminal in 1865.

Age of autos and airplanes

Just as the 19th century was the golden age of rails, the 20th century has been the era of the automobile, truck, and airplane. Publicly financed super-highways allowed door-to-door truck deliveries. Propeller-driven airplanes started carrying mail after World War I. Huge jets now ferry passengers and freight across continents and oceans.

Today's \$145 billion freight transportation industry has meant a decentralization of all aspects of life in America.

In his "Transportation Policy for a Changing America," issued early this year, Secretary of Transportation Brock Adams says: "Transportation is a fundamental part of our country's economic life, of our individual working lives, and of our family and social lives. It is our life-stream."

Although the system does not need major expansion in the next ten years, Mr. Adams says maintenance and improvements are imperative. He also underscores the many inconsistencies in government regulation of the industry:

"Past policies have left us a mixed bag of economic regulation. For example, the railroads are regulated in a framework intended to restrain potential monopoly abuse, which is now no longer the threat it once was. Motor carriers operate under a partial regulatory regime that does not recognize the major role the modern truck has assumed in today's transport system, and the inland waterway system is hardly regulated at all."

Mr. Adams says DOT is preparing legislation that would boost competition by loosening Interstate Commerce Commission control over rail and truck rates, allowing railroads to abandon money-losing services, and easing entry of new truck lines into the market.

World's poorest monopoly

Richard E. Briggs, vice president for economics and public affairs at the Association of American Railroads, says: "The plodding pace of regulation has been a heavy burden. In many respects we are being regulated as if we were a monopoly, and if we are a monopoly with our earnings, we are the world's poorest monopoly."

Railroads carry 35.6 percent of the nation's freight as measured in ton-miles, specializing in coal, grain, and

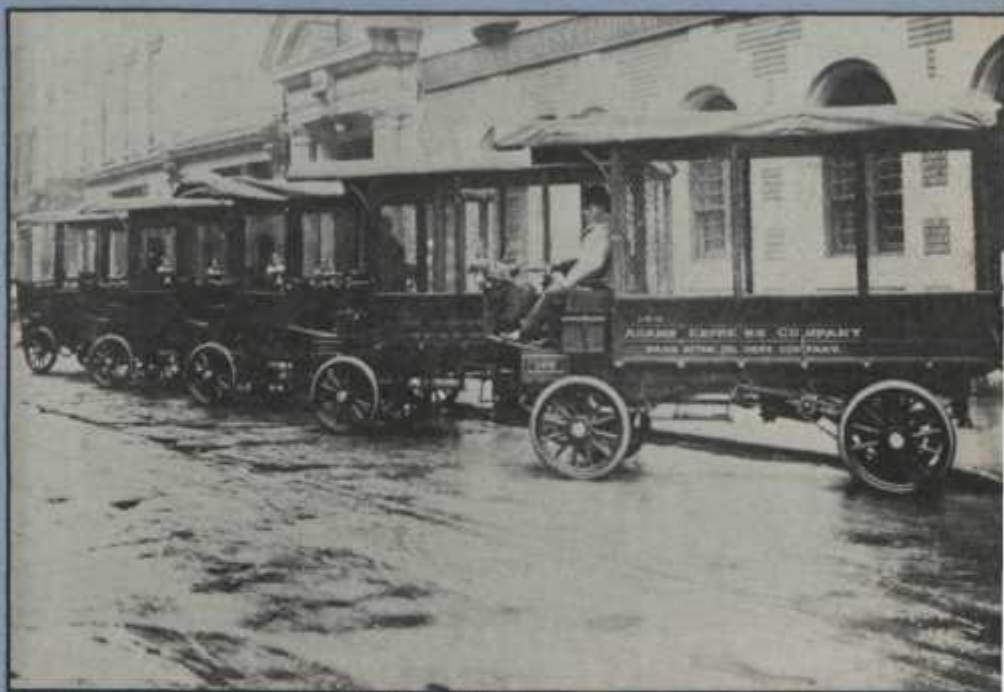
other bulk commodities. However, as recently as 1953, that share was 51 percent. Trucks, emphasizing delivery of small shipments, have 24.1 percent; some observers say they could overtake railroads in the 1990s. Oil pipelines, boosted by the Alaskan line, have 24 percent; waterways—rivers, canals, and Great Lakes shipping—have 16.1 percent; and air has a comparatively tiny but highly valuable 0.18 percent.

Mr. Briggs says regulation by the ICC is "outmoded, inequitable, and a disincentive to innovation." He notes that the

massive bankruptcy of the Penn Central in 1970 led to the formation of Conrail, a heavily subsidized freight carrier.

Also, the railroads' 1.28 percent rate of return on investment in 1977 was lower than that of the 1930s. One attempt to recoup, a request in November to the ICC for an 8.1 percent freight rate boost, may be rejected because it exceeds voluntary wage-price guidelines.

While deregulation may be welcomed by railroads, it is an inflammatory word to the trucking industry. The American Trucking Associations strongly oppose



Some of the earliest trucks looked a lot like the farm wagons they replaced to speed deliveries within the cities.



Trailers that piggybacked on rail flatcars are reunited with trucks at Oakland, Calif., for the next leg of their journey.

legislation that would allow open entry and greater rate flexibility. Deregulation supporters say competition would increase, but William T. Cassels, Jr., chairman of ATA and president of Southeastern Freight Lines in Columbia, S. C., likens deregulation to "transportation suicide."

"A favorite maxim to support opening

up interstate trucking to anyone who owns a rig is that this will provide more competition and lead to lower trucking costs.

"This maxim ignores the public utility nature of trucking as a service which must be provided. The fact is that federal regulation of transportation holds down the cost of trucking while ensuring

adequate service," he says. [See "The Dangers of Deregulating the Trucking Industry," Nov.].

Also holding down freight costs is competition among the various modes of transport.

Because all five—rail, truck, pipeline, water, and air—have overlapping capabilities, each thinks the other has been encroaching on its natural market.

Railroads, which haul 74 percent of the nation's coal, much of it in unit trains that churn like conveyor belts between mine and power plant, oppose groups who believe that coal would move more efficiently in a slurry pipeline.

Trucks, citing superior service, have taken long-haul traffic from rails and slower barges plying the 25,000 miles of inland waterways.

Air freight, in turn, benefits from payloads as large as 100 tons to take high-value traffic from trucks.

Survival for railroads

For railroads, the future is promising if they can survive the present, which means too much duplicative track, too much regulation, and too little productivity from 500,000 employees, though these excesses are muted on the relatively profitable western and southern lines.

For the future, railroads hope to exploit their energy efficiency—they haul four times as much freight per gallon of fuel as big trucks—and their ability to expand capacity on already owned rights-of-way.

Railroads now haul 80 percent of new cars and provide 52 percent of the transportation for chemicals, 77 percent for lumber and wood, and 46 percent for meat and dairy products.

But, to survive as a privately run system, railroads are looking to consolidation. For example, two major carriers, the Chessie System and Seaboard Coast Line Industries, began negotiations in September. Their merger would produce the nation's largest railroad.

Trucking's flexibility

While railroads talk merger to improve efficiency, the nation's 42,000-mile interstate highway system gives truckers speed and flexibility.

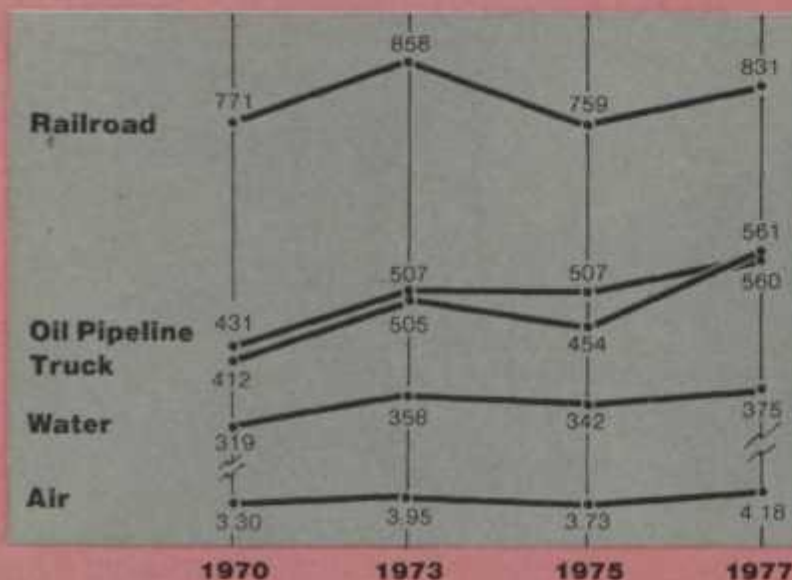
Today's truck is the descendant of the 19th century horse and wagon. This lineage is memorialized in the name of the two-million-member Teamsters union, but otherwise the evolutionary change is complete.

And as much as movie directors and songwriters like to portray truckers as nomads who call their own shots, this



Inland waterways connect manufacturers with distant markets. This 150,000-pound pressure tank bound for Saudi Arabia is being loaded at Tulsa's Port of Catoosa, 448 miles from the Mississippi River.

Intercity Freight by Modes in Billions of Ton-Miles*



*A gauge of carrying capacity, a ton-mile is one ton of freight moved one mile.

Source: Transportation Association of America

Myth:

Truck traffic can move only on the highways.



Fact:

More than two million truckloads moved by railway last year.

Piggybacking—the movement of truck trailers or containers by rail—is the fastest-growing part of the railroad business. It set a new record in 1977 and it's now our second-largest source of traffic—next to coal.

The piggyback concept has come of age. Better yet, it has generated a wealth of innovations and improvements. Containerized cargo destined for foreign countries now moves across America by rail. New designs in flatcars are saving fuel and increasing loads. Truck trailers that actually ride either roads or rails with two separate sets of wheels are being tested.

This is good news for the railroads, but it's better news for the consumer and the nation. Many piggyback trains move their cargo with about half the fuel that would be required by trucks to move the same goods.

Usually there's a cost saving in piggyback shipments, too, with the advantage of fast, long-distance travel and expedited door-to-door delivery service.

Because these truckloads travel on the railroads, not the highways, the motoring public enjoys a greater degree of safety and less congestion, while damage to the highway system is reduced.

Not all trucks can move by train, but thousands more are doing so every year. And the ones that do aren't leaving potholes in your favorite road. For more information, write: Facts, Dept. BP-2

Association of American Railroads
American Railroads Building
Washington, D.C. 20036

Surprise:

We've been working on the railroad.



image is far from reality. Trucking, like railroading, is big business.

The ATA says that revenues of regular carriers grew from \$7.2 billion, or 43 percent of total freight revenue in 1960, to \$26 billion, 53 percent of the total, in 1976.

Close to two thirds of all the communities in the U. S. depend on truck deliver-

ies because they are not directly served by railroads.

Although the 16,000 regulated, for-hire, interstate motor carriers are best known to the public, private carriers and the trucking operations of manufacturers, merchants, and others whose principal business is not trucking carry more freight.

Both for-hire and private trucks must comply with a bewildering array of state and federal regulations. Truck height, width, and length, gross weight, weight per axle, number of axles, and braking systems are regulated by one or more states, but regulations may differ from state to state and between the interstate system and other state highways. For example, some central states mandate gross vehicle weights below the federal standard of 80,000 pounds.

Bennett C. Whitlock, Jr., president of ATA, says: "It is almost like an iron curtain going from Illinois south to Mississippi, restricting east-west movement of traffic. An east-west carrier can't load to 80,000 pounds, then 73,280, then 80,000. The carrier has to load to the lowest common denominator."

Unobtrusive carriers

While the mammoth, long-haul tractor trailers are a common sight on the highway, unobtrusively carrying about the same amount of freight are petroleum pipelines.

The 200,000 miles-plus of pipeline have increased their tonnage and market share, mainly at the expense of railroads. Sixty percent of petroleum was shipped via pipeline in 1977, 35 percent by water, and only two and three percent by rail and truck.

R. P. Lennart, manager, transportation planning, Amoco Oil, says: "Pipelines are the most efficient and the cheapest form of overland transportation. Underground and out of the way, pipelines operate continuously, using stationary power sources, without the unprofitable return trip required of other transports."

However, pipelines have narrow applications. Mr. Lennart observes: "To be successful, a pipeline must be needed to provide continuous movement of a rather large quantity of materials from point A to point B. Once a pipeline route is fixed, it can't be readily adjusted to serve shifting sources of supply or changing markets. And it isn't salvageable. In this environment, only the major oil companies can afford to risk building it."

Riding the rivers

Like pipelines, enormous barges using the inland waterway system specialize in carrying energy-related commodities.

Petroleum, petrochemicals, and coal comprise about 60 percent of this commerce, with grains, fertilizer, and raw materials for industry making up the rest.

Following meandering rivers is not speedy, but the costs of barge movement are low, partly because the industry has not been charged specifically for



Tractor trailers have the flexibility to leave the interstate highways and make deliveries to the centers of the largest cities.

All Moving Together

Despite longstanding rivalries between modes of freight transportation, cooperation may be the key to faster, more efficient delivery.

For example, ocean shippers and railroads have collaborated on the money-saving landbridge concept since 1972. In essence, U. S. railroads are used as a link in trade between Europe and the Orient. Containers are unloaded from ships at one coast, loaded aboard trains and sped across the continent for loading aboard ships on the other coast—all on a single bill of lading.

Rails and trucks are cooperating on piggybacking in which truck trailers ride rail flatcars to combine the low-cost, long-haul capabilities of rail with the door-to-door flexibility of the truck. Piggybacking hit an all-time record in 1977. A refinement of the

concept is a trailer with rubber tires and flanged wheels that runs on both highway and rails.

Other likely developments ahead include:

- Ongoing decentralization of population and manufacturing in the U. S. will increase the need for quick, flexible service, thereby continuing the growth market for the combined use of air and truck.
- By the 1990s, aerodynamically designed trucks will run more quietly and will get better mileage, using synthetic fuel.
- Pipelines will look beyond liquids, natural gas, and slurried solids to the movement of dry, solid cargo.
- Freight will move in vehicles that ride a stream of pressurized air, much like a train in a tube, says Tubexpress Systems of Houston.



Slow-moving barges plying the nation's 25,000 miles of inland waterways efficiently carry loads of coal, chemicals, and grain.



Oil pipelines unobtrusively and continuously carry about as much freight as all the nation's trucks.



Immense rail classification yards, such as this Southern Pacific facility near Los Angeles, use computers to help sort out which railroad cars are destined to go where.



Truckers say twin trailers—allowed in 36 states—are more productive than the single-trailer arrangement.



Garments on hangers, here carried by the Flying Tiger Line, are classified as time-sensitive goods because they must be in the stores by certain dates to meet customer demand.



Besides carrying crucial equipment and small packages, air freight can also accommodate live cargo.

its use of the government's multibillion dollar network of locks and canals.

This situation will end in 1980 when a waterway toll, long opposed by the industry, will take effect. The tax will be four cents a gallon of diesel fuel, increasing to ten cents a gallon by 1985.

Air cargo growing

The regularly scheduled shipment of goods by air began more than 50 years ago with the Ford Motor Co., which used planes to supply parts for production lines.

Auto parts are still a leading air cargo commodity, along with such time-sensitive items as newspapers and magazines, fresh fruit and vegetables, and cut flowers.

About half the current air freight volume of 4.2 billion tons is carried in the cargo hatches of passenger jets. A leading passenger carrier, American Airlines, says: "One of the most significant air freight developments has been the introduction of 20-foot intermodal containers designed to permit fast interchange with trucks and ships."

Another major change was the 1977 cargo deregulation act which freed cargo carriers to fly where they want and charge what they want.

Competition is now at full throttle for the overnight delivery of packages weighing less than 70 pounds. Federal Express is the leader now, with Airborne Freight, Emery Express, and scheduled

airlines such as Eastern and United also in the race.

Others in the small package business include United Parcel Service, the U. S. Postal Service, Amtrak, and the major bus companies, Greyhound and Trailways.

None, however, can match the speed of electronic delivery. Telecopiers and facsimile machines use telephone lines to transmit business documents, legal briefs, and other important papers for a growing number of businesses.

As with all major industries, governmental efforts to preserve and protect parts of the sprawling, interlocking freight transportation industry have led to controversy.

Railroads bemoan their inability to finance faster modernization of roadbeds, yards, and terminals; trucking wants to maintain the status quo; bargemen are troubled by the new user tax recently approved by Congress; pipelines seek legislative support to carry more than liquids and gas; and air freight tiptoes into an era of complete deregulation.

So, as the U. S. rolls into the 1980s, dirt roads and sailing ships are a vestige of the past, superhighways and supertankers are a present reality, and the future promises a super efficient system of moving products and people from here to there. □



To order reprints of this article, see page 31.

Transportation Policy in Pieces

The General Accounting Office has taken an in-depth look at federal transportation policy and found it fragmented and uncoordinated.

The federal government spends \$18 billion a year on transportation, not counting its own purchase of transportation goods and services, says the GAO. It reports that:

- There are 114 federal programs just for the transportation of people.
- In addition to the Department of Transportation, which has nine separate agencies, there are 22 federal agencies and three federally supported agencies that deal with transportation matters.
- On Capitol Hill, there are seven House committees with 12 subcommittees, seven Senate committees with eight subcommittees; and one congressional commission dealing with transportation issues.

The GAO study lists 21 lobbies and 18 private research organizations that influence decision-making, but there are many more, including both registered and unregistered lobbyists.

Not surprisingly, the GAO says, "there is a growing public awareness and concern that uncoordinated transportation policies are having counterproductive effects."

"During the next decade, we expect that the general problem of planning and coordinating balanced national transportation policies and programs is likely to become a dominant issue for Congress."

Among the problems GAO pinpoints are:

Rail freight. Federally subsidized Conrail won't achieve profitability soon, if ever. All systems need rehabilitation and modernization. Further, substantial expansion will be needed

during the next ten years for coal tonnage, which is expected to double.

Ocean transportation. Despite improvements in productivity, U. S. shipyards continue to be uncompetitive with foreign yards and to require federal subsidies. Two recent controversies: Defeat of the cargo preference bill that would have required nine percent of oil imports to be carried in U. S. flag ships and more effective control of ocean oil pollution from tankers.

Pipelines. Because of high productivity, low costs, automation, absence of a large labor force, and little or no federal aid, pipelines have drawn scant public attention until recently. However, the construction of the Alaskan oil pipeline and proposed coal slurry pipelines that might deplete scarce western water supplies have raised environmental protection questions.

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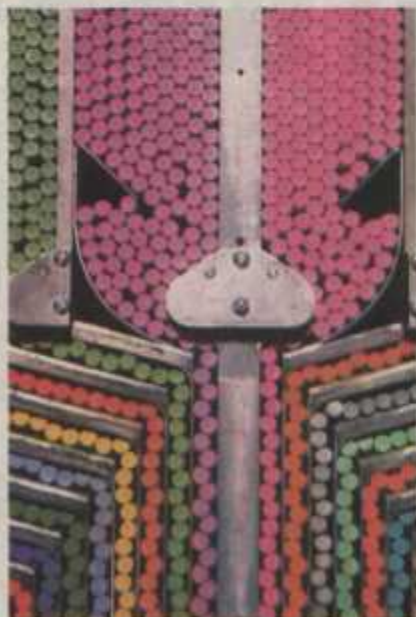
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PHOTO: JEFF SMITH



Before Binney and Smith products are sold nationally, the company tests them with a selected group of parents and children. Crayola crayons, however, need no testing. They are still made as they were 75 years ago. The colors come from pigment, but before the pinks, blues, and reds drop down the collator into Crayola boxes, each batch is checked against a master color chart.

Kids Love Crayola Crayons

Binney & Smith invented the popular children's crayon 75 years ago. Today, the company is growth-oriented and is setting sales records every year

By Roberta Graham

WHEN I WAS A KID maybe ten years old, I would go into the dime store and literally drool over the crayons," says 61-year-old Russell J. McChesney, chairman and chief executive officer of Binney & Smith, Inc., the people who bring you the best-selling Crayola crayons.

"Maybe I had a nickel, and if I bought Crayola crayons, I would get eight sticks, and if I bought anything else, I would get 12 or more sticks. But I also knew that they weren't as good; they were waxier, less pigmented ... in the end, I always chose Crayola."

It has been 75 years since the first child was introduced to the first Crayola crayon. Today, if you laid the 1.8 billion Crayola crayons sold last year in the U.S. head to point, they would circle the globe four and a half times.

Like other innovations that began developing in the early 1900s—the automobile and the moving picture show—Crayola crayons have quadrupled in popularity ten times over. Last year the crayons accounted for 50 per-

cent of Binney & Smith's total income; domestic sales were \$30 million, the highest in company history. Last year's net sales and earnings increased 11.6 percent and 16.5 percent respectively over 1976 despite the declining birth rate and the rising cost of raw materials.

The primary reason for the company's continued growth is its better-than-80-percent hold on the crayon market. This dominance results from a 30-year-old corporate goal to establish Crayola crayon as the leader in its field.

Forced to diversify

Major competitors admit that they have been forced to diversify their product line to survive the tough Binney & Smith competition.

The Mead Corp., Dayton, Ohio, for example, decided to sell its crayon manufacturing division in 1977 because it was not profitable. "Our philosophy is to dominate the market," says one Mead executive, "and we just couldn't dominate the crayon market. Binney & Smith has it wrapped up."

The company began manufacturing and promoting Crayola crayons in 1903, when there was very little competition.

But Crayola origins date to 1864, when Joseph Walker Binney, an English immigrant, settled near Peekskill, N. Y., and founded the Peekskill Chemical Works. It soon specialized in producing industrial marking crayons, inks, and dyes.

In 1888, Mr. Binney turned the company over to one of his sons, Edwin, and to his nephew, C. Harold Smith. The firm's name was changed to Binney & Smith, and Edwin's wife, Alice,

*ARTWORK BY MEREDITH A. SCHRAE

urged her husband to develop a color stick that the children she taught could use in school.

Edwin came up with the original boxes of six, 12, 18, and 24 crayons by adding pigment instead of lampblack to the melted wax and oil mixture. In 1903, Alice Binney christened the sticks Crayola.

The name, explains Reynolds Girder, Jr., the great, great-grandson of Joseph Binney and now vice president of corporate relations for Binney & Smith, is a combination of cray from the word crayon and olea from the word oleaginous, meaning oil. Crayola was trademarked in 1905.

Alice's schoolchildren were crazy about their new color sticks, and the company decided to market them.

For new ventures 1903 was not a good year—the country was on the brink of a recession. However, Binney & Smith plunged in, hiring agents and manufacturers' representatives to sell the crayons to drugstores, stationery retailers, and office supply outlets.

Brink of a recession

Family legend says that first-year sales totaled less than \$10. But by the end of 1910, annual sales were \$84,438. By 1912, sales were up to \$135,581, and six years later, the company had its own three-man sales force.

Today, Binney & Smith has 52 sales people, including regional and national managers, who call on mass merchandizers, wholesalers, and chain stores. Main targets are still schools.

"The school supply distributors are really the heart and soul of our business," says George P. Putnam, III, director of the company's art workshop program through which art consul-



Russell J. McChesney rose from office boy to chief executive of Binney and Smith. Many call him "Mr. Crayola."

tants instruct teachers on using Crayola crayons in the classroom.

"As long as teachers insist on Crayola crayons," he says, "school supply distributors will continue to buy from Binney & Smith."

Marjorie Lawrence Birks, a first-grade teacher in Prince Georges County, Md., insists on Crayola crayons.

"I use the crayons instructively," she says, "not only to teach the children colors but also to help them develop motor control of their hands."

"My kids just love Crayola crayons, and if I ever tried to give them anything else, I'm sure I would be creating something short of a revolt in my classroom!"

However much the children love Crayola crayons, financial investors and security analysts were largely unaware of the company's solid growth.

"Not many in the financial community knew who we were," says Mr. McChesney. "We weren't listed in reference manuals used by stockbrokers and financial investors even in 1974—we had been public for 13 years by

then. We decided that it was time the investing public got to know the company. After all, everyone knew our products."

Green and yellow label

Under Mr. McChesney, who took over in 1971 as the first nonfamily chairman and chief executive officer of the company, a corporate growth strategy was developed. Its aims were to increase sales and earnings between ten and 15 percent a year, acquire other leisure-time companies, diversify the traditional product line, and re-market some older products under the familiar green and yellow Crayola label.

Binney & Smith has done all of that and more: It has shifted advertising dollars from television to women's magazines; increased the size of its manufacturing, warehousing, and shipping facilities in domestic and foreign plants while closing smaller, inefficient facilities; revamped its marketing and sales departments; and refocused its product development program to include older customers.

"We're moving to become less dependent on Crayola crayons," explains Mr. McChesney, "because we have really reached the point of saturation distribution. Since it is well established as the leading crayon, we would like to begin pushing other products such as our paints, chalks, and children's games, all using the Crayola name."

"We would also like to become less dependent on crayons because a lot of what goes into making them is very expensive," he adds. "There are four major ingredients in making a crayon: Pigment which gives it color; paraffin, a by-product of petroleum; stearic acid, a by-product of meat; and paper for the wrapper. As the prices of oil, paper, and meat increase, so does the price of the crayons."

The company's moves toward diversifying its product line and becoming growth-oriented seem to have worked. Last year was the third in a row that the company's sales and earnings reached a record, and the first half of 1978 has already surpassed that of 1977.

Clean little company

A New York security analyst says: "Binney & Smith is a clean little company, a leader in its field with a fascinating heritage and an almost generic product. It is in a good financial position."

However, the corporate hierarchy

realizes that, despite its broader product line aimed at a variety of ages, real growth is premised on children's use of the company's products.

"They really are our most important customers," says Mr. McChesney. "Although the number of children in this age group has declined, we think we can continue to sell more crayons to fewer children, based on the results of the past three years."

The number of children born annually in the U. S. has declined from 21 million in 1960-64 to just over 9.6 million in 1975-77. By 2000, the Census Bureau expects the rate to level off at about 3.7 million births a year.

Even with fewer children, the company still receives a steady volume of letters every week. Usually addressed to "Mr. Crayola," they come from mothers, fathers, grandparents, and the children themselves.

"Dear Mr. Crayola," reads one, "64 Crayola crayons are neat (sic). I color with them and play with them. I even build houses with them. I love Crayola crayons."

"Dear Gentle People," reads another, "I was 70 years old yesterday, and I still enjoy your Crayolas. As I enjoy working with a four-year-old grandchild so much, 64 Crayolas in a box was one of my birthday gifts."

Other trademarked products

Lisa Kessel and Rhonda Mish of New Paltz, N. Y., wrote to Mr. Crayola asking when the crayons were invented. "We have always enjoyed using Crayola crayons," they say.

Binney & Smith also offers other trademarked products such as Silly Putty, Kleerwae chalks, Liquitex acrylic paints, Easy-Off and Besco crayons, and Arista chalks, paint brushes, water colors, and tempera paints.

These products accounted for an 11.6 percent increase in overall sales last year and have also inspired their own brand loyalty.

"Dear Sir," writes a wife and mother from Dracut, Mass., "I rarely write to companies and when I do, it seems it's always to complain. This time I wanted to say something positive. Not only do my two children love Silly Putty, but also the product has helped my husband and my sister to quit smoking. It gives them something to do with their hands. Thank you for making such a fine product."

To maintain the quality of all products, the company develops most of its own machinery and subjects every

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The Light Brigade Charged Without Capt. Binney



Joseph Binney served with the Light Brigade at Balaklava, but was in camp the day the brigade charged.

The weather in the fall of 1854 was a little wetter than usual on the Crimean Peninsula. But with the Crimean War well into its second year, the humid and often rainy days seemed more unbearable than ever.

In the plateau regions just below the mountains, vineyard masters were already harvesting the grapes and carting them off to the wineries

near Yalta. And the strategic port city of Balaklava on the Black Sea was bustling with activity as food, clothing, and military equipment arrived almost weekly from Britain, France, and the Ottoman Empire. Florence Nightingale could sometimes be seen on the docks anxiously awaiting medical supplies from England.

Joseph Walker Binney, the 18-year-old son of a prominent English stockbroker from Wakefield, was one of many Britons who fought in that war. Born on Dec. 6, 1836, Joseph has been described by family historians as an intelligent man, very interested in business, and dedicated to the needs of his country.

His parents purchased an officer's commission for him in the royal army, and soon after the outbreak of the Crimean War in 1853, Capt. Joseph Binney became an aide-de-camp to Gen. Vivian at Balaklava, serving primarily as a military liaison with the Light Brigade stationed just outside the city.

In October, 1854, Russian forces tried in vain to capture Balaklava. They succeeded in gaining control of a major supply road, cutting off the necessary food, medicine, and armaments from allied troops stationed further inland.

Orders were sent to the Light Brigade to annihilate Russian forces being positioned around the city so that allied forces could regain the supply road. But final orders to Lord Cardigan, who led the Light Brigade into battle, were confusing.

Instead of sweeping around the city to get to the Russian guns, Lord Cardigan took his troops down into the city, where almost half fell prey to Russian artillery. The tragedy inspired Alfred, Lord Tennyson's compelling account of the "Charge of the Light Brigade."

On that infamous day, family legend says, Capt. Binney was in camp when the orders were given for the Light Brigade to charge. He was also in camp when the few survivors returned.

"Fortunately for the company," says Reynolds Girdler, Jr., vice president of Binney & Smith corporate relations, "Capt. Binney did not go with the brigade."

Joseph Binney later immigrated to the United States, married Annie Eliza Conklin, and settled near Peekskill, N. Y., where he founded the Peekskill Chemical Works. That small upstate New York firm later became the renowned maker of Crayola crayons.

batch of crayons, paints, clays, and chalks to a color check against a master chart developed years ago.

Says Douglas A. Campbell, manufacturing administrative assistant: "Despite all of the changes we've been through over the years, we're really a traditional company when it comes to maintaining quality."

Top executives speak of the company in almost reverent tones, recalling how during the depression, the company fired no workers; how retirement benefits and pension plans were offered to employees before it became customary to do so; how the price of a box of eight Crayola crayons has been raised a mere 27 cents since 1905; how every consumer's letter is answered; and how the company truly cares about its customers and employees.

Frederick S. Conine worked for Binney & Smith in Easton, Pa., for almost

42 years before leaving his job as chief technician in the quality control laboratory. Today, he is assistant minister at Trinity Episcopal Church in Easton but still spends at least one day a week at the Binney & Smith plant, counseling employees with personal problems or visiting them if they are sick.

"Quite a few of our employees have come from families whose members have worked for us generation after generation," says Mr. Campbell, himself a second-generation Binney & Smith employee. "There is a great deal of loyalty here. There is also a great deal of love for our products."

Russell McChesney believes that Crayola crayons have taught many people about life and love. "They have been companions to many children... pals who saw them through school and home life. If the crayons broke, it seems as if they could never be mend-

ed. Mom would probably have to buy a whole new box."

Why has the Crayola crayon inspired such a love affair with American children?

"I think it is because of the quality of the product," says Mr. McChesney.

"The name Crayola is inbred in Americans. It is actually identifiable with mom, dad, and the grandparents because the quality has always been there.... That can't be refuted."

"Crayola is synonymous with childhood, parenthood, and creativity. Everyone knows them, everyone loves them. Sometimes they make you nostalgic, but always they make you smile."

And Russell McChesney smiles to himself... nostalgically. □



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Whatever Happened to the Vietnam Veteran?

PHOTO: PAUL CONKLIN



Vietnam veterans are the best educated ever. About 64 percent have used federal education funds to some extent.



The true story of the Vietnam veteran "has never been told," says VA Administrator Max Cleland.

Today, most of them have settled down to a job, a home, and a family

By William Kroger

HE IS 32 years old and has taken advantage of federal education programs. He is married, has a good job, and makes more money than many in his age group.

Who is he? The average Vietnam veteran today.

There are 8.5 million veterans who served in America's armed forces between 1964 and 1975—the Vietnam era. While 2.6 million actually served in Vietnam, all 8.5 million are considered Vietnam veterans, just as those who did not go overseas or serve in combat zones during World War II or Korea are veterans of those wars.

When the 8.5 million Vietnam veterans left the service, about 80 percent had completed high school, making them the best educated veterans in the history of the nation.

About 63 percent of their counterparts from the Korean conflict and only 45 percent from World War II had completed high school by the time they left the service.

Since separation from the military, 64.6 percent of the Vietnam veterans have used the educational portion of the GI Bill to some extent. This figure compares with 50.7 percent of Korean conflict veterans and 28.6 percent of World War II veterans.

Putting down roots

The median income for a Vietnam veteran and his family, according to the Veterans Administration, was \$15,790 in 1976, the year of the latest survey. Families headed by comparable male nonveterans earned a median income of \$14,620 in 1976.

The Vietnam veteran is establishing roots. The VA reports that through August just under 1.8 million guaranteed or insured loans had been made to such veterans, mostly for the purchase of homes. The total amount guaranteed was more than \$44 billion.

Today's Vietnam veteran is also beginning to join organizations, a further indication that he is settling down. The American Legion, the largest veterans organization, has a membership of 2.65 million; about 500,000 are Vietnam veterans.

The Veterans of Foreign Wars, which requires members to have served overseas in a combat zone, has a total membership of 1.85 million, of whom 560,000 are Vietnam veterans. Some veterans may belong to both groups.

The Disabled American Veterans has a membership of 575,000. That organization says 143,000 members—25 percent—are Vietnam veterans.

Statistics support the image of the

Vietnam veteran as an involved and productive member of society. But many Americans have a negative perception of him. They think that:

- He's poor, addicted to drugs, and has few, if any, marketable skills.
- He hangs around on street corners, or drifts aimlessly.
- He has been in trouble with the law and has deep-rooted psychological problems.
- He's a walking time bomb, a potential psychopathic killer.

How did the Vietnam veteran acquire this reputation?

"The media—primarily television and movies—have damaged the image of the Vietnam veteran," says William E. Lawson, founder of the American Association of Minority Veterans Program Administrators. "You look at programs, and the Vietnam veteran in them is usually on the bad side of the law."

There is a basis for this perception, however.

The Vietnam war, through the media, continuously bombarded the American consciousness in great detail. And what was seen, heard, and read was mostly accurate.

For example, a 1973 study conducted by Dr. Lee N. Robins of Washington University Medical School, St. Louis, showed that usage of hard drugs by military personnel in Vietnam was very high.

So-called heroin epidemic

Dr. Robins surveyed 900 Army Vietnam veterans after their return to the U.S. The study, funded by the government, pointed out that nearly 35 percent of those sampled tried heroin in some form at least once during their one-year tours in Vietnam.

Media coverage of the so-called heroin epidemic among American military personnel in Southeast Asia during 1970-72 was factual, widespread, and left an indelible impression that was reinforced by popular opinion.

Also covered by the media, but not as extensively, were these statistics: Of those surveyed in the 1973 study, only 9.5 percent used narcotics in the eight to 12 months following their return to the U.S., only two percent were using narcotics at the time of the interview, and only 1.3 percent felt they were dependent on narcotics at any time in the year after their return.

The Defense Department, when releasing the study, reported that narcotics dependence among those who had served in Southeast Asia during 1970-72 was no higher than for nonveterans of the same age group.

This statement never registered in the minds of most Americans, and the image of the drug-addicted Vietnam veteran lingers today.

Dr. Charles A. Stenger, chief psychologist for the Veterans Administration, says one of five Vietnam veterans could be helped with some counseling or psychological therapy.

Mental disturbance

A widely-cited study says that one in ten Americans could benefit from the same type of therapy. The statistics seem to show that the incidence of mental disturbance is twice as great among Vietnam veterans as nonveterans.

However, says a spokesman for the American Psychiatric Association, the one-in-ten statistic comes from a study conducted in the 1920s.

More recent information, from a report submitted to the President earlier this year by the Commission on Mental Health, shows that possibly 15 percent of the U.S. population could benefit from some psychological therapy. That's only five percent lower than the Vietnam-veteran statistic.

Further, Dr. Stenger says, as many as one out of five young Americans—the same ratio as for Vietnam veterans—could benefit from psychological therapy. He adds that the need for readjustment counseling among returning World War II veterans probably was as great as it was for Vietnam veterans. But there was practically no recognition of the problem then.

Another myth about the Vietnam veteran is that he is or has been in trouble with the law.

Lack of information

In 1974, a General Accounting Office study estimated that a quarter of the prison inmates in the U.S. were Vietnam veterans. Another study by the Law Enforcement Assistance Administration in the same year estimated that 20 percent of those in state prisons were Vietnam veterans.

There is a real lack of information about veterans, and Vietnam veterans especially, in prisons and jails, says an official of the federal Bureau of Prisons. Much of what is available, such as

PHOTO: PAUL CONKLIN



Guaranteed home loans to Vietnam veterans amount to billions of dollars.

the GAO and LEAA studies, involves estimates. "Once you're dealing with estimated statistics, you're in a very gray area," the official says.

The total federal prison population was about 24,000 in 1973, the only year the Bureau of Prisons has made a study involving Vietnam veterans. Of that number, 11 percent were Vietnam veterans.

A 1975 Massachusetts survey found that 11 percent of the inmates were Vietnam veterans. In Pennsylvania that year, the figure was 13 percent.

The total federal and state prison population last January was 292,000. Even if GAO's and LEAA's estimates are correct, the total number of jailed Vietnam veterans is small compared to the 8.5 million Americans who served during the 11-year period.

If most Vietnam veterans are mentally stable, have good jobs, make good money, and are productive members of society, why all the fuss about them?

One big reason is that America has a

long tradition of taking care of its veterans.

"For him who shall have borne the battle, and for his widow and his orphan" is the slogan that adorns the entrance to the Veterans Administration headquarters in Washington, D. C. Those are the words of Abraham Lincoln, taken from his second inaugural address.

The VA is vast

The VA became a part of the federal government in 1930. Today, it is the third largest federal agency, with an annual budget of more than \$19 billion and a work force of 224,000.

The agency oversees federal programs for about 30 million veterans, including the GI Bill, pensions, loan guarantees, and medical services.

The VA operates 172 hospitals. On any given day, those hospitals will have 80,000 patients; 12 percent of them will be Vietnam veterans.

The VA is also helping 20,000 veterans—90 percent whom are Vietnam veterans—through outpatient rehabilitation training. The largest single group of disabled veterans is physically disabled.

At the head of this vast organization is a Vietnam veteran, Max Cleland. When he became administrator last year at the age of 35, he was the youngest in the VA's history.

Grenade explosion

Mr. Cleland is no stranger to the system he is running. He lost both legs and his right arm in a grenade explosion in Vietnam in 1968 and spent the next 18 months in military and VA hospitals.

"I think the VA, like all large government agencies, can slip into bureaucratic behavior that fails to provide service to our clientele. We have had our problems.

"Since I've become administrator, we have attempted to focus on those veterans who have the most serious problems, and you can certainly count some of our Vietnam veterans among that number."

Mr. Cleland says that "if the VA is bureaucratic and unresponsive, it is only because we allow it to be. I do not intend to sit idly by and see this agency, which is supposed to do its best for those who have given their best, be unresponsive and bureaucratic."

He has instituted several programs to reach veterans who have not contacted the VA for benefits to which they are entitled.



Business can do much to help Vietnam veterans, especially those who are disabled, says Sen. Alan Cranston (D.-Calif.).

The Vietnam war coincided with a period of great change in America. It began during the civil rights movement and continued through the hippie phenomenon and on into a time of increasing unemployment and slow economic growth.

The war itself was provocative. "Are you for it or against it" was the argumentative question of the late 1960s and early 1970s.

It was an issue that divided families, shut down college campuses, and inspired demonstrations of every description. Americans—regardless of which side they supported—were bitter.

"It was an unpopular war," says Ralph Hall, a specialist in the Labor Department's Veterans Employment Service in Washington, with more than 20 years' experience in veterans affairs.

Feelings of frustration

"When we came back from World War II, it was a war that had been supported by the nation. The economy needed the labor force.

"When the Vietnam war ended, the economy wasn't booming. There were no jobs, and many veterans didn't have job skills."

The VA's Dr. Stenger adds: "The Vietnam war was an extra burden on those who served in the armed forces. It came at a very complex time.

"Those who were in combat, especially those who had killed someone, had trouble making the transition back to civilian life. They felt they had risked their lives. Why? What did the

U. S. give them in return? People were against them, there were no jobs, no help.

"People wanted to forget Vietnam. They wanted Vietnam veterans to go away. They felt: 'I don't want to remember that war—or you.'"

In April, 1969, more than 540,000 American military people were in Vietnam. By February, 1973, U. S. military strength had fallen to a mere 10,200. Many of those individuals were discharged in the following months. Along with the returning military personnel who had served elsewhere, millions of other young Americans were being forced into the U. S. economy in a short period of time.

One million jobs

Something had to be done to help them.

One answer came from business. In tandem with government agencies, private businessmen hired thousands of Vietnam veterans. The National Alliance of Businessmen's Jobs for Veterans alone is responsible for finding more than one million jobs for Vietnam veterans since its inception.

Veterans organizations also helped, conducting job-finding programs in various communities around the country.

The GI Bill was another answer. In 1974, it was upgraded by Congress. Today, a qualified veteran with two dependents can receive as much as \$422 a month to go to school.

Massive program

Yet an additional avenue of help involved government-subsidized jobs.

In 1973, Congress passed the Comprehensive Employment and Training Act, a massive public service job and training program through which many Vietnam veterans found jobs. Last year, President Carter announced a three-part, one-shot program aimed at helping younger Vietnam veterans.

One part involved continued preference hiring for Vietnam veterans under CETA. Another part centered on the private sector with a program called HIRE—Help Through Industry Retraining and Employment. This subsidized private employers who placed veterans, primarily Vietnam veterans, in permanent full-time jobs. The program's goal was 100,000 jobs, but it ran into problems.

Sen. Alan Cranston (D.-Calif.), majority whip and chairman of the Senate Veterans' Affairs Committee, says: "The original HIRE program was not a

Veterans Who Still Need Help

Despite the shattering nature of the Vietnam war, most veterans have made a successful transition to civilian life.

But the minority that hasn't was part of a new study ordered by the White House. It estimated that as many as 20 percent of Vietnam veterans continue to face readjustment problems; many of them are minority group members.

Dr. Peter E. M. Beach, director of veterans affairs for the Department of Health, Education, and Welfare, says the suicide rate and the incidence of wife and child abuse are higher among the 8.5 million veterans who served during the Vietnam conflict than for nonveterans of the same age group. He adds that the rates increase for those who went to Vietnam and again for those who were in actual combat.

He maintains that there are many Vietnam veterans who need help not only with employment but also with psychological counseling. "If there is a problem," he says, "it should be solved now. If it is allowed to go on untreated, it will not go away. It is like a sore that festers. It gets worse."

The study shows that alcohol abuse is a far greater problem than drug abuse among Vietnam veterans. Since 1970, the number of hospitalized Vietnam veterans identified as alcoholics or problem drinkers has more than doubled. The Veterans Ad-

ministration estimates that it spends \$30 million each year treating Vietnam veterans with drug and alcohol problems.

William E. Lawson, founder of the American Association of Minority Veterans' Program Administrators, and a Vietnam veteran, says that "those from the poorer areas are the ones who have the problems. They probably returned to their environment, couldn't find a job, and became frustrated. You can find this type of guy anywhere, on any street corner."

The VA spends millions of dollars each year assisting Vietnam veterans with psychological problems. In addition, a top legislative priority of Max Cleland, VA administrator, is to fund an outpatient psychological counseling program for Vietnam veterans "whose problems are not serious enough to require hospitalization." This program did not make it through the 95th Congress, but Mr. Cleland says it will be reintroduced.

In the summer of 1971, the National Alliance of Businessmen began the Jobs for Veterans program. Through its 120 local offices, NAB has worked with private employers and government agencies to place Vietnam veterans in unsubsidized jobs.

Charles P. Collins, an NAB vice-president, says that since the program began, more than 1.2 million Vietnam veterans have found jobs through NAB.

For example, in late summer the unemployment rate for male Vietnam veterans aged 20 to 34 was 6.3 percent. The rate for nonveterans of the same age was 5.8 percent.

The biggest target for help in recent months has been the younger veteran, aged 20 to 24. The unemployment rate in this group has fallen nearly four percentage points in the past year but remains high. In late summer, it was nearly 14 percent, compared to about six percent for the overall population.

Biggest contribution

"Business can do a great deal to help the Vietnam veteran," says Sen. Cranston. "It will only be through the joint efforts of private industry and the agencies involved in vocational rehabilitation that we will make needed progress in providing employment opportunities for the disabled."

Mr. Cleland of the VA says: "The single biggest contribution American business can make in terms of the Vietnam veteran is not to treat him as a stereotype. I think each business that is considering hiring a Vietnam veteran should deal with that veteran as an individual."

"The Vietnam veteran probably has more personal qualifications," he says, "because of the experience of being under stress. We recognize that the veteran of World War II was a more mature and better motivated student, and eventually employee, because of his experiences. I think we can make the same assumption about the Vietnam veteran."

"Vietnam veterans feel betrayed," says Dr. Peter E. M. Beach, director of veterans affairs for the Department of Health, Education, and Welfare.

Under the rug

One of their biggest problems, he adds, is their image of themselves. "Society as a whole is to blame for how it has treated the Vietnam veteran. Society wants to sweep that whole era under the rug. It cannot look objectively at Vietnam, and it will be many more years before it can."

The whole question of the Vietnam veteran is complex; even the experts cannot agree on the psychological consequences of that controversial era.

But one thing is certain. Most Vietnam veterans have made good readjustments to civilian life. They are not drug-crazed killers, or dopers, or prison inmates. They have families, buy homes, and conduct their lives just like the fellow who lives next door. □

success, unfortunately, and very few veterans were placed in jobs."

Labor Department officials admit that the HIRE program had problems. Only employers who would place 100 individuals were considered, and the program was operated from Washington, often many miles from the scene of employment.

HIRE was amended and is now called HIRE II. It began this past summer, and it permits any employer to participate. It is operated through CETA prime sponsor offices across the country.

The third part of the President's program involves disabled veterans. Its goal was to place 40,000 disabled veterans in jobs. Initially, 2,000 disabled veterans were hired at local and state

employment offices to find jobs for the other 38,000 disabled veterans.

Wesley W. Caison, Jr. is manager of the Alexandria office of the Virginia Employment Commission. He told NATION'S BUSINESS that the disabled veteran program "is the best program I've ever seen. It had a specific priority, and it worked."

The Disabled Veteran Outreach Program will be continued by the Labor Department at a reduced rate through 1981.

With all these programs, the previous high unemployment rate among Vietnam veterans, especially among younger ones, began to decrease. But still the rate for this group remains higher than that for nonveterans of the same age.

The Airlines Are Going Solo

By Tony Velocci

For 40 years the Civil Aeronautics Board has piloted the scheduled airlines with tight controls; now a new law grounds the agency

LESS THAN A YEAR AGO, when airlines began offering whopping discounts, a chorus of industry experts warned that there was no hope of filling enough seats to compensate for the lower rates. Today, there is optimism, even euphoria. More people are flying than ever before, and the airlines, riding on rising profits, are scrambling to meet the demand.

Scheduled domestic airlines will establish records for both service and earnings this year. The Air Transport Association estimates that in 1978 airlines will have carried 280 million passengers, about 40 million more than in 1977. And in 1979, the nation's airlines may carry up to 300 million passengers, according to Paul Ignatius, ATA president.

Now that President Carter has signed the bill which will gradually end Civil Aeronautics Board regulation of the airlines and increase competition among domestic carriers, what does it mean for the public and the airline industry?

"The important question is how to

maintain our present level of business while attracting enough new patrons to survive and prosper," says United Air Lines President Richard Ferris. "Carriers will need a plan that covers everything from the routes they fly to the size and type of equipment they purchase."

Carriers will continue to offer discount fares as a way of making flying affordable for the greatest number of people. Some airlines will drop a small number of routes and add others. Where a major carrier withdraws from a market, smaller commuter lines will fill the void. Regional airlines will expand dramatically.

Surge is over

The airlines' consensus, however, is that the boom in air travel, spurred by discount fares, is over. Growth is expected to be moderate—perhaps four or five percent a year—compared with the big surge in 1978.

Airline deregulation actually began in the Johnson administration, and gained momentum under Presidents

Nixon and Ford. By the time President Carter took office, much of the groundwork had been laid.

The movement became unstoppable, some say, when President Carter named Alfred E. Kahn, a Cornell University economist, as chairman of the CAB in 1977.

Mr. Kahn, who has since left the CAB to become the President's chief inflation fighter, accelerated deregulation by stripping the CAB of some of its regulatory powers. Under his aegis, the CAB granted airlines new routes and approved large fare discounts on many flights.

"An industry performs better when it must please its customers rather than government regulators," says Mr. Kahn.

The new law gradually reduces the role of the Civil Aeronautics Board in fare and route decisions and abolishes the agency altogether at the end of 1984.

Many people in both government and the private sector believe that deregulation will enhance airline profits.



PHOTO: FRANK JOHNSTON—THE WASHINGTON POST



Discount fares helped the airlines attract about 280 million passengers and attain record profits in 1978. An estimated 300 million will fly in 1979.

The new deregulation law spurred representatives of major U. S. airlines to wait their turn in front of the CAB building to protect or bid on unused routes.

"Competition has already helped both consumers and the industry," says President Carter. "It has brought lower fares, more passengers, and higher profits."

John Snow, an economist, attorney, and vice-president of the Chessie System, directed the task force on aviation regulatory reform in the Ford administration. He says that it was not government regulation that made the airline industry the success it is today but rather the millions of people who want to travel by air.

Highest rating

Sixty-three percent, or 94.5 million Americans over 18, have taken a trip on an airliner, according to a survey conducted during 1977 by the Gallup Organization for the ATA. That's up from 33 percent 15 years earlier.

During 1977, the nation's airlines were given the highest rating by the American public in a national consumer survey conducted for a leading weekly news magazine. In another category, airlines also rated highest

among 31 major industries for the amount and quality of information provided about their product.

"Under deregulation, airlines will be able to adjust to economic conditions characteristic of a free enterprise system, which should strengthen their ability to sustain healthy profits," says Mr. Snow.

Allegheny Airlines agrees. For years, the regional airline has been confined to serving just the Northeast. With deregulation, however, it now expects to establish routes in the Sunbelt, where winter resort traffic can help offset off-season business slumps and high operating expenses during the winter.

Says an Allegheny spokesman: "As far as we are concerned, we're in a whole new ball game that's fraught with opportunity."

Most of the airlines that opposed deregulation seem to have reconciled themselves to the new economic rules by which they will have to operate. American and Eastern, for example, are quick to point out that they can

compete in any environment and will do whatever is required to be successful.

Still, much of the uncertainty expressed during the legislation's formative stages lingers. "None of us knows for certain what is going to happen, or even how the industry will be reshaped," says Charles Simons, Eastern's vice-chairman and executive vice-president.

Laboratory position

Some carriers would have preferred to see deregulation phased in at a much slower pace through trial and error. Says Delta Vice-Chairman R. S. Maurer: "We would prefer to see CAB in a sort of laboratory position, where experiments are conducted in a progressive but somewhat more limited basis, with the results of each step being carefully analyzed before a decision is made to put the changes into full production on a national scale."

American Airlines, along with the ATA, believes that deregulation will produce some unpleasant results. The major carriers will get bigger, they argue, and the industry will tend to concentrate its resources on profitable markets and be less inclined to serve marginal or nonprofitable routes. Under the old CAB system, airlines were required to service such routes.

"We see many opportunities for growth," says Alton Becker, Jr., director of field public relations services for American Airlines. "For example, we have been trying for a long time to gain access to Las Vegas and Florida; now we can."

Smaller carriers

"But we are concerned about what will happen to smaller carriers, the integrated route system that allows competing airlines to handle each other's tickets and baggage, and small communities that could lose all air service."

Fares on long flights may go down, but the price of short trips could increase, Mr. Becker predicts.

"Under the old system, the CAB computed the fare structure by averaging all of an airline's operating costs, regardless of the route," he explains. "Of course, this did not reflect an airline's true operating expenses."

Under the new act, the airlines can raise their fares up to a maximum of

five percent unless they carry more than 70 percent of the passenger traffic on a route. They can also lower their fares by up to 50 percent without CAB approval.

To guard against cutthroat competition, the new law prohibits predatory pricing and preserves the CAB's authority to enforce the prohibition.

The intercarrier agreement covering cooperative ticketing and baggage handling was examined carefully when the possible effects of airline regulatory reform were being studied. Under CAB rules, airlines were able to honor such agreements without fear of violating antitrust laws.

Antitrust immunity

"That issue is nothing more than a red herring," says Mr. Snow. "We concluded very early that there was no danger of regulatory reform destroying intercarrier agreements. And if any questions did arise, there would be no difficulty in securing antitrust immunity to cover them since they were in the public interest."

What will happen to small towns that already have scheduled air service? Under the new law, not much. Small communities that now have scheduled flights are guaranteed essential air service for ten years under a subsidy program. In fact, Congress attached an amendment to the deregulation bill requiring the last scheduled carrier servicing a city to remain until a replacement service is found.

Actually, regulation of the industry by the CAB did not protect service to small communities. Between 1965 and 1975, only nine new locations were added to the network served by major carriers. By the end of 1975, service had ceased at more than 130 points.

Boon for commuters

Major carriers such as United and Braniff admit they will be unable to continue to serve some small routes. But they also point out that commuter airlines will step in and fill the void and, in the process, do it very efficiently.

The result could be a blessing for these smaller carriers. This may help to explain why more than 90 commuter carriers notified the Commuter Airline Association of America of their support of the deregulation bill.

A record 8.5 million passengers traveled by commuter airlines in 1977, an increase of 16.4 percent over the previous year. Since 1968, commuter airlines have successfully replaced

scheduled carriers in 53 cities, some with as few as two passengers a day. And most are making money because they use smaller airplanes, provide fewer frills, and have lower operating costs.

In 1977, the scheduled airlines employed about 308,000 people, the third highest employment level in the past decade. The chance that some of them might be displaced as a direct result of deregulating the industry was another major consideration before the final bill was written.

Opinions vary, but most industry sources generally agree that the risks are marginal. As Braniff Vice-President Jere Cox says: "Most of us are going to be expanding our operations, not cutting back. I can't see how people could be laid off."

Still, Congress included a labor protection provision in the new law, which stipulates that 7.5 percent of a carrier's employees must be laid off within a 12-month calendar period before any receive benefits. And only employees with four or more years' seniority are eligible for assistance.

Mutual aid restricted

Organized labor, including the Airline Pilots Association, fought for a much stronger labor protection provision, but failed. However, labor was successful in weakening the carriers' Mutual Aid Pact.

Now, no MAP member will be able to receive aid during the first 30 days of a strike and payments will be limited to eight weeks and 60 percent of the carrier's operational costs. Previously, MAP airlines provided each other with critical financial aid during strikes, starting with the first day of the striking employees' job action. Northwest Airlines, for instance, received more than \$100 million during its 109-day strike earlier this year.

International aviation is separate from domestic carrier service, so the new airline deregulation law will have no direct effect on that segment of the industry, but the new law will enable U.S. international flag carriers to obtain certain domestic routes. Pan American, for instance, has wanted for years to obtain permission to fly between certain points which could feed additional passengers to their scheduled international flights. Now it has those routes, such as between New York and Los Angeles, on which domestic passengers can be carried.

Much of what the CAB did was anti-competitive—keeping air fares arti-

cally high, blocking entry of new carriers into the industry, and denying carriers' requests to expand routes and experiment with marketing and pricing. The result was protection of competitors, not competition. In this way, the established airlines could be assured of a certain level of return on their investments. This also attracted enough investors to provide the airlines with sufficient borrowing power to purchase airplanes, now costing up to \$60 million each.

Erratic earnings

The idea behind regulatory reform is that the airlines are now sophisticated enough to handle their own economics without federal intrusion. Even with airlines earning record profits in 1978, however, their performance is still below the average of five cents profit on each dollar of sales for U.S. manufacturing as a whole.

The trend in airline earnings has been erratic and inadequate over the past ten years. In 1970 and 1975, the airline industry had severe losses. In recent years, more than half of earnings have come from nonairline operations, compared with about 14 percent in 1966, according to the ATA.

The industry's profit margin—the amount of earnings on each dollar of sales—has eroded. Since the mid-1960s, airline revenues have nearly tripled because of increased traffic, but profits have not increased correspondingly.

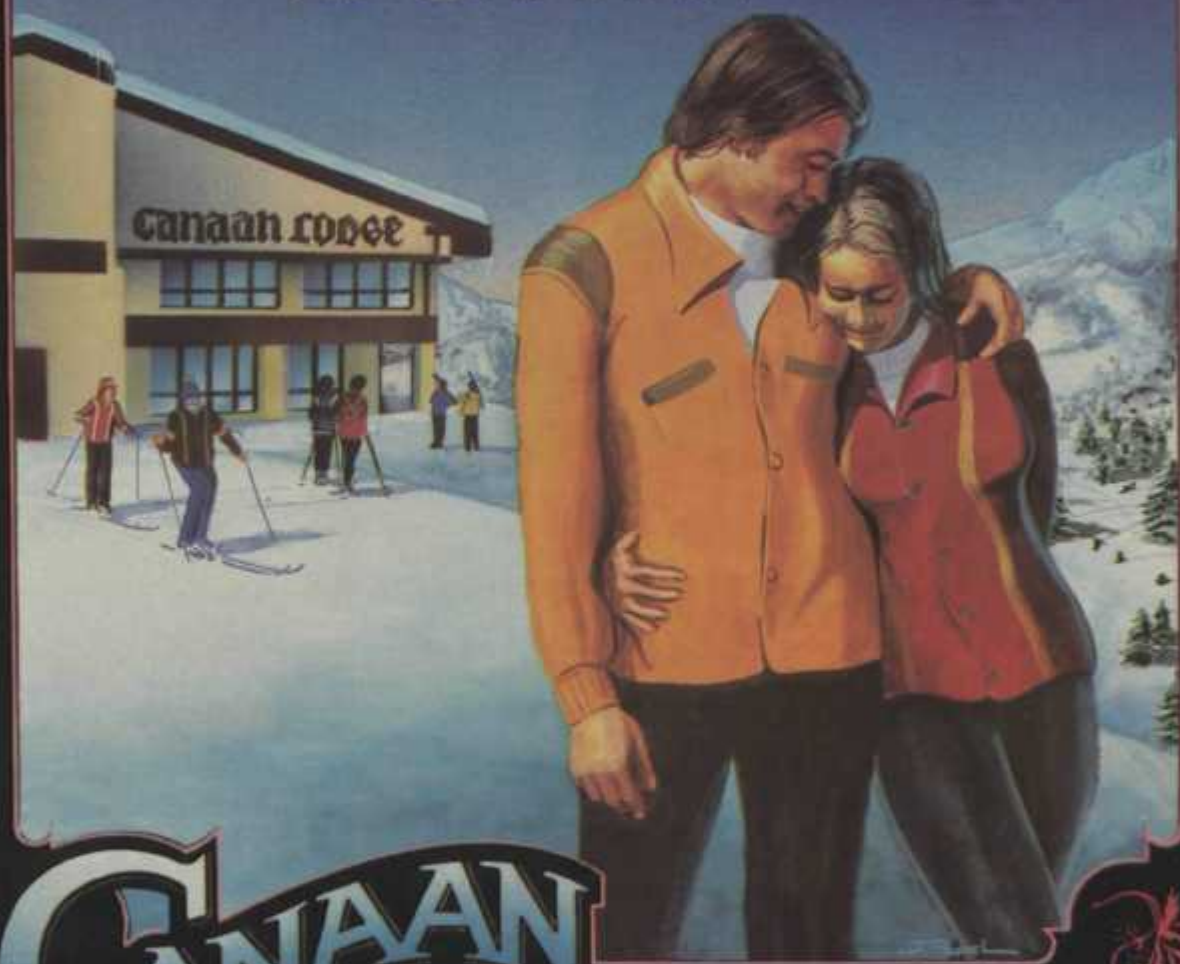
One good year

Says Mr. Ferris of United: "Maybe now that management can make the business decisions instead of following the dictates of government regulators, the airlines can climb out of this earnings basement. One good year—1978—is not going to convince financiers that they should invest more of their money in airlines. This past year's level of business has to be sustained, and deregulation will help us do that."

Some members of the financial community agree. A recent report from Merrill, Lynch, Pierce, Fenner & Smith, Inc., states that airline finances will strengthen with more competition, and service will suffer little.

Says an industry executive: "You have to go back to the old regulatory philosophy—a regulated carrier has an obligation to serve. Well, most carriers today believe they have the same obligation to serve; it's just that they don't need the CAB around anymore to remind them of that." □

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Newly Elected Congress Gets the Message

Slow down government spending,
the voters tell victorious
challengers and incumbents



The Democrats' "most outstanding success came in the House of Representatives," says John C. White, Democratic National Committee chief.

BASKING in the victory spotlight on election night in Cincinnati, Rep. Thomas A. Luken thanked his loyal Democratic supporters for returning him to Congress.

He told them that during the campaign he had heard the insistent message from the voters: The federal government must slow down spending.

The message Rep. Luken heard was

reiterated during the campaign to incumbents and challengers across the nation. If the message is heeded, the 96th Congress, which convenes in Washington next month, should be much more wary about continuing huge government outlays.

While the Democrats didn't lose as many seats as might have been expected—a net of 12 in the House and three in the Senate—there is every indication that conservatives were the real winners. This reflects Proposition 13 fever, which infected nearly all the candidates. They invariably found the public aroused by economic issues. Government's free-wheeling spending was right up front on the list of things the voters didn't like.

More sympathetic

This means the new Congress should be a bit more sympathetic to programs espoused by business that are designed to get at the root causes of inflation: deficit spending and added funding for programs that have marginal benefits.

This doesn't mean that business won't face some tough battles on big issues in Congress next year. But the voters have sent a powerful message to those who were elected and reelected to Congress.

The defeat of five liberal senators clearly showed that voters are turning against the extreme left—and in some other races, the extreme right.

This Congress will undoubtedly be



Republican National Committee Chairman Bill Brock called Nov. 7 a banner day for the GOP, which made election gains in Congress and at the state level.

more conservative. Liberal Republicans such as Sen. Charles H. Percy of Illinois, who had to mount a massive battle for his political life, got the message, too.

"I have to assume the new Congress will be more attuned than its predecessor to the public's growing conservative mood," says Hilton Davis, who is vice-president for legislative action for the Chamber of Commerce of the Unit-

ed States. "From the standpoint of the business sector, that is very encouraging.

"The President should also be encouraged. The composition of the new Congress makes it more likely that he can move more rapidly toward reducing the federal deficit and balancing the budget, both crucial to his program for controlling inflation.

"But an evaluation of the new members does not tell the full story, because it does not reflect any philosophical shift among those who were reelected," says Mr. Davis. "Many incumbents sounded conservative in their campaigns. If they keep faith with their campaign oratory, that will mean still more conservatism.

"Overall, the 96th Congress should continue to display an independence that the leadership will sometimes find frustrating. But that signals a growing responsiveness to their constituents—and that's the way it should be."

Although Congress remains overwhelmingly Democratic, the change in political views of some of those elected will be most important to business.

One reason for this is that the economy will be the central issue in the next session of Congress, with inflation at the head of the list.

President Carter has already indicated this issue will be his chief domestic concern, but his approach is apt to differ from that of Congress.

For one thing, the President wants to cut deficit spending, but probably not as much as the new Congress does.

For another, as part of his wage-price guidelines program, he has proposed a tax-based wage insurance proposal that would, if workers hold wage and benefit demands to seven percent and inflation exceeds this rate, make up some of the difference.

There is very little initial sentiment in the coming Congress in favor of this controversial approach.

While the overall gains of Republicans in the total makeup of Congress are not overwhelming, the GOP did do better than the leadership expected.

For the record, the Republicans will have 159 members in the House and 41 in the Senate, compared with 276 Democratic representatives and 58 senators, plus one Independent.

"The increased number of Republicans just elected to the Senate will give us a better ratio in committee membership, and that will give us a more effective impact on legislation," says Sen. Howard H. Baker, Jr. (R-Tenn.), the Senate minority leader.

"We believe that the more Republicans there are in Congress, the more benefits there will be for the taxpayers in terms of capital formation, less government intervention, and a smaller federal deficit—all of which would benefit business and the economy."

Country's distaste

John C. White, chairman of the Democratic National Committee, says: "Our most outstanding success came in the House of Representatives. The average loss for the President's party in the midterm elections has been 34 seats. This is the first time in the post-war era that Democrats have retained more than 60 percent of House seats in three successive elections."

Mr. White adds that "while it appears there is a slightly conservative trend, the election results do show the country's distaste for the far right."

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Sen. Howard H. Baker, Jr. (R.-Tenn.), minority leader in the 95th Congress, says Republican Senate gains will improve the GOP's ability to impact on legislation.

PHOTO: GORDON BRACE-BLACK STAR

The election also showed an apparent distaste for the five liberal senators who were defeated.

Republican National Committee Chairman Bill Brock called Nov. 7 a banner day for the GOP. He said that after the setbacks of the past two elections, the Republicans have established their momentum.

Mr. Brock added: "I think we're going to have a more responsible Congress, showing greater restraint on spending."

The National Chamber's Alliance for Politics, a political action committee, reports that out of 49 House races it targeted for possible wins for business-oriented candidates, just under 30 came home for a 60 percent win ratio.

In the Senate, the PAC picked nine target races, and won seven.

Across the nation, the Republicans made quite an impact by gaining about 300 seats in state legislatures. This increased from four to 12 the number of

Banner Benefits for Small Business?

The new Congress will be a banner one for small business, predicts William B. Cherkasky, staff director of the Senate Select Committee on Small Business.

He bases this judgment on the increased awareness in the past four years of small business problems by Congress and the public at large, and on his projections for the 96th Congress. In addition, the upcoming White House Conference on Small Business in January, 1980, should heighten public interest in small business, he says.

"Congress has done a turnabout on small business since 1975," says Mr. Cherkasky. That year Sen. Gaylord Nelson (D.-Wis.) became chairman of the Senate small business committee.

Some of the recent advances made by small business in Congress can be attributed to him. The senator also serves on the Senate Finance Committee. His position there has been an added benefit for the small business community.

It is not uncommon to see a piece of tax legislation helpful to small business carrying Sen. Nelson's name.

For example, the tax bill recently signed by President Carter included a graduated corporate income tax plan which is weighted toward businesses

that make less than \$100,000 annually in profits. Sen. Nelson introduced the measure in the Senate.

Mr. Cherkasky says Sen. Nelson will push to improve the tax plan for small business when Congress convenes, along with legislation for a simplified and accelerated depreciation schedule for small business. Legislation on the depreciation schedule issue was introduced in the last Congress but failed to clear a House-Senate conference committee.

The 95th Congress had three other senators on both the small business and finance committees, but two of the senators lost their reelection bids, leaving Sens. Nelson and Bob Packwood (R.-Oregon) the only two remaining on both.

In the next Congress, Sen. Nelson will seek an increase in the number of small business development centers from the current eight to 15. These centers—two are in California and one each is in Missouri, New Jersey, Georgia, Maine, Nebraska, and Florida—provide university-level expertise to small business.

A bill to increase the number of centers to 15 passed the 95th Congress, but was included in the omnibus small business bill that was vetoed by President Carter. Mr. Cher-

kasky told NATION's BUSINESS the centers were not at issue. He predicts legislation increasing their number will clear Congress soon after introduction in January.

The Senate committee wants the counsel for advocacy in the Small Business Administration upgraded to increase the voice of small business in federal and congressional matters. This measure also was included in the omnibus small business bill, but was one of the main reasons the President vetoed it. Mr. Carter said he felt that upgrading this office—to the extent the legislation called for—would hamper the ability of the SBA administrator to run the agency. Mr. Cherkasky says the committee members will try to work with the President on new legislation.

The staff director also says the committee will try to improve the government's procurement policies. "We don't think the small businessman gets enough of the federal contracting dollar," he says.

The SBA does not have the legal authority to intervene in the contracting-out process, but the committee will try to enact this authority.

"We won't pass all our legislative hopes in the 96th Congress," says Mr. Cherkasky, "but the committee will be pushing for them."

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"Economics for Young Americans" is the vital multi-part economic education program that makes basic economics so interesting that it has taken the country by storm. More than 15,000 Phase I kits and some 2,500 Phase II kits are now in distribution... but there are still areas where the kits have not been placed.

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states in which the GOP controls both houses.

The Republicans also gained six governorships, but lost one in the totally unexpected defeat of incumbent Meldrim Thomson, Jr. in New Hampshire.

The governorships are important when congressional reapportionment is enacted by state legislatures after the 1980 census. Control of state legislatures is a powerful force for ensuring safe districts for a party's candidates.

Tougher time

The more conservative makeup of Congress, combined with the voters' mood on spending, portends a tougher time for the President on programs such as national health insurance, labor law reform, and consumer protection.

The fed-up-with-spending attitude of the public first surfaced late last spring when California voters passed Proposition 13, which limited state property taxes. In the general election, voters in 13 of 16 states where the issue appeared on the ballot voted for tax or spending limitations.

But clearly the voters were more in favor of cutting spending than chop-

ping taxes which could result in curtailment of public services.

The makeup of the new Senate probably means that the effort to change the rule cutting off a filibuster will run into strong opposition. The filibuster has been used successfully by business-oriented senators to block legislation that they considered harmful to the economy and by liberals for their purposes.

Against the new mood of the electorate is balanced a shadow of the 1980 presidential elections.

Already there is evidence that the campaign issues for that election are going to be tested in the new Congress, where there are several potential candidates for the Republican slate.

And while President Carter's chances of having a serious rival for the Democratic nomination have lessened, they have not entirely disappeared. His own reelection chances may depend on how well the economic issues are handled next year.

Overall, business did not fare too badly in the 95th Congress on issues which affect the climate in which business operates. Some see even more hopeful signs with the 96th Congress. □

Business PACs Face More Attacks

Several days after the October adjournment of the 95th Congress, Sen. Edward M. Kennedy (D.-Mass.) said it was "the best Congress money could buy."

He was quoting Mark Twain, but the statement reflected his opposition to the rapid growth of political action committees and his support of publicly financed national elections.

Making a speech in Michigan, the senator said: "The Senate and House are awash in a sea of special-interest campaign contributions and special-interest lobbying."

His attack was aimed at all PACs—union, business, and special interest.

However, some in the business community felt that his remarks were aimed at business, and especially at business PACs.

Business-related PACs have grown in recent years, following changes in federal law and actions by the Federal Election Commission.

Before 1975, there were about 100 business-related PACs. Today, there

are more than 700 company PACs and about 400 trade and professional association PACs.

This growth and business's success in the last Congress—winning 65 percent of issues identified as important to business—have raised some fears that there will be efforts in the next Congress to water down the effectiveness of PACs. The fear is not imaginary—a PAC battle can be expected.

For example, bills were introduced in the last Congress to reduce the maximum allowable contribution by a multicandidate PAC from \$5,000 to as low as \$1,000. This would have hampered business PACs most.

Attempts were also made to pass bills designed to block the use of membership organization funds to pay for the administrative costs of running a PAC. Unions were excluded from that proposal.

"It is obvious to antibusiness forces that business-related PACs are becoming stronger financially through

large numbers of individual contributions," says John Kochevar, treasurer of the National Chamber Alliance for Politics, a political action committee.

He adds that antibusiness forces are "afraid of the future growth potential of business-related PACs."

"Antibusiness forces are going after business-related PACs. They tried to in the last Congress. They'll try again in the next."

PHOTO: PAUL COMELIN



Sen. Edward M. Kennedy would like to see public financing of congressional elections.

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Mandate for the New Congress: Fight Inflation

THOSE WHO FAVOR private-sector solutions to pressing national problems should be encouraged by current political trends.

Americans are forcefully reaffirming the nation's fundamental belief in economic and individual freedom.

They are showing renewed recognition that a flourishing, competitive enterprise system is essential to a free society.

Voter decisions in last month's elections reflected those views, and those decisions could have an impact on the course of American government into the next century.

Challengers who defeated incumbents were, for the most part, individuals who identify government as the cause of many of today's most serious problems. Conversely, many of the incumbents who lost had established records as advocates of the type of government-oriented actions that have proven so costly and generally ineffective.

The Chamber of Commerce of the United States had an important role in bringing national concern over inflation to the forefront of the issues in the 1978 elections.

As part of its broad, anti-inflation campaign, the business federation asked every candidate for Congress to go on record on how he or she would vote, if elected, on government actions that intensify inflation.

Responses to the National Chamber's 17-part questionnaire demonstrated overwhelming support for striking at inflation through curbs on taxing, spending, and regulatory excesses.

More than 98 percent of the candidates responding gave an affirmative answer to the question of whether they would "consider in-

flation the nation's No. 1 problem—and work for government policies that relieve the problem."

Using remarkably similar language, President Carter said in a post-election pledge that fighting inflation will be "my top domestic commitment—and I don't intend to fail."

That pledge was made as reports of voter decisions on ballot proposals, as well as candidates, spotlighted how citizens' attitudes toward government are changing.

A sampling of those decisions:

- Voters in 13 states approved various constitutional amendments and other types of proposals for putting a strong lid on state taxes, spending, or both.

- Proposals to require deposits on beverage containers were rejected in the two states where they appeared on the ballots.

- Californians rejected a proposal to put drastic restrictions on where individuals may smoke. The vote had national implications because of that state's role as a trend-setter.

- North Dakota voters turned down a plan to impose controls on health-care costs rather than risk a decline in the quality of care.

There were some setbacks to the private sector. For example, Montana voters virtually banned the development of nuclear energy plants.

But overall, the signs of change in favor of private-sector initiatives were clear-cut.

The 1979-80 congressional session will be an important testing ground of whether the elected servants of the people will respond promptly to the new mood of the nation.

As long as the democratic process is working, they have no other choice. □

Nation's Business is the business advocate magazine leading the effort to strengthen the private enterprise system to advance human progress.

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